

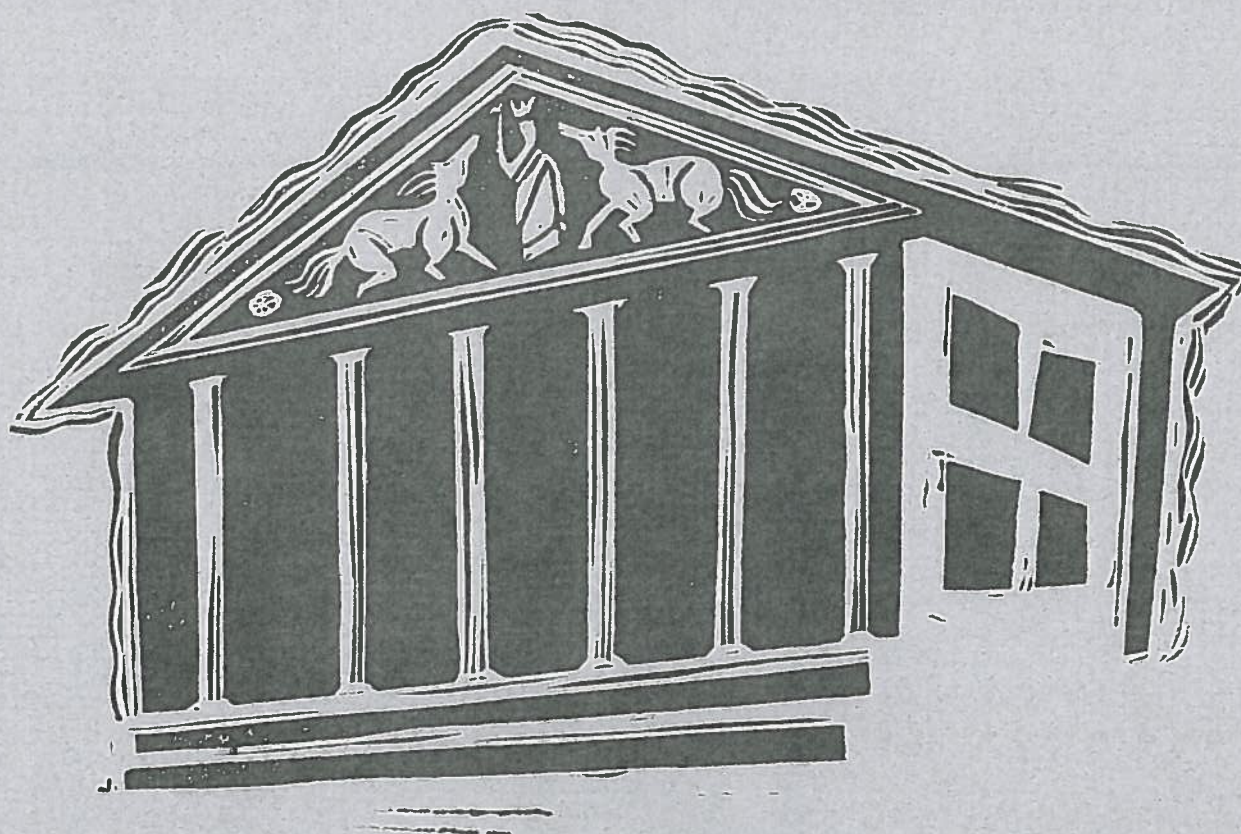
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TOOLS

F O R

LENDERS

*A Guide to Successful
Community Reinvestment*



WOODSTOCK INSTITUTE

Woodstock Institute has developed this publication to assist financial institutions in strengthening their CRA performance. Purchase of this publication does not ensure protection from a CRA challenge by community-based organizations, nor does it guarantee a favorable CRA evaluation by banking regulators.

W O O D S T O C K I N S T I T U T E

Woodstock Institute is a not-for-profit organization based in Chicago. For the past 16 years, the Institute has carried out applied research and developed and implemented programs which increase private sector investment in modest-income and minority communities for the benefit of those who live there. It designs programs which bridge the gap between the needs of communities and the resources of banks, savings and loan associations, foundations and others.

The Institute provides a variety of services to community-based organizations, financial institutions, foundations and government agencies, including applied research, policy analysis, program design and evaluation.

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INTRODUCTION

THE COMMUNITY REINVESTMENT ACT (CRA) was passed by Congress in 1977 with the purpose of ensuring that every financial institution fulfills its responsibility to help meet the credit needs of its community. As outlined in federal regulations (reprinted on page 59), each bank and savings and loan association must prepare an annual CRA statement which delineates its local community and identifies the ways in which the financial institution is helping to meet the credit needs of that community; it must post in its lobby a CRA Notice informing the public of its rights under CRA; and it must maintain a public file of all signed letters pertaining to the institution's CRA statement or lending performance.

Oversight of CRA compliance is the responsibility of

banking regulatory agencies. These agencies regularly examine each institution to ensure compliance. In addition, any application by a financial institution for a deposit facility, including a branch, acquisition, merger, relocation, or establishment of a new holding company, may be protested or challenged by community organizations if they feel that the action will have adverse consequences on meeting community credit needs.

During the past several years, these community protests and challenges have markedly increased, reflecting the increase in merger, acquisition, and interstate banking activity throughout the banking industry and the increased capacity of community-based organizations to be active partici-

pants and developers in the process of community reinvestment. Furthermore, the February, 1989 rejection of Continental Bank's application to acquire an Arizona bank, the March, 1989 release of the *Joint Policy Statement on CRA* by the federal banking regulators (see page 69) and subsequent more stringent regulatory CRA exams all herald a new era of CRA standards and expectations.

Because of these trends, many financial institutions are now reviewing their community reinvestment records prior to embarking on expansion plans to ensure: 1) that they are meeting the credit needs of their community to the greatest possible degree, consistent with sound banking practices; 2) that they have established and maintained relationships with local community organizations, particularly low-income and housing advocacy groups; and 3) that their CRA statements and other published materials accurately reflect their lending and service to their communities.

Woodstock Institute has prepared this publication to help guide financial institutions as they assess their compliance with both the letter and the spirit of the Community Reinvestment Act. *Tools for Lenders* is a primer for financial institu-

tions—a "how to" manual for successful community reinvestment. The publication focuses on four key areas designed to help depositories better fulfill their CRA obligations:

1. **CONCENTRIC CIRCLES**—This chapter establishes a context for community reinvestment by describing what is meant by community lending. The framework it presents is an essential first step for understanding what is expected of financial institutions under the Community Reinvestment Act.
2. **CRA STATEMENT**—While the title of this chapter focuses on a document, the CRA statement, the substance deals with the concrete steps an institution should take to improve lending to its community. By taking these steps, the institution will ultimately be able to construct a CRA statement as well as increase the extension of credit to its community. The five broad steps outlined in this section are as follows:
 - Defining your community;
 - Identifying community credit needs;
 - Deciding which loan products to offer;
 - Designing a community lending program; and
 - Informing the community of your products and services.

This chapter includes a model community lending program and a model CRA statement that institutions can use as guides for developing their own.

3. **COMMUNITY AFFAIRS OFFICER (CAO)**—Once community credit needs have been identified and a response to them developed, a CAO should be designated to oversee implementation of your CRA initiatives. This chapter consists of a generic job description for a CAO that outlines the major areas of responsibility for this essential staff position.

4. **CRA MANAGEMENT PLAN**—This section presents a management by objectives plan that can aid senior management in ensuring that the financial institution actually does what it sets out to do. A menu of generic objectives with a series of tasks for accomplishing each is presented in a format that clearly shows what needs to be done, who is responsible, when the task should be completed and what is the status of work on each task.

line under the Community Reinvestment Act. Lenders can spend a great deal of time and resources on process and documentation but, until the institution starts making loans, neither the community or the regulators will be satisfied. Financial institutions should not lose sight of this ultimate objective as they follow the steps laid out in this guide.

While *Tools for Lenders* focuses on process and documentation, it is important to remember that meeting community credit needs by making loans to your community is the bottom



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CONCENTRIC CIRCLES:

A FRAMEWORK FOR

COMMUNITY REINVESTMENT

MANY COMMERCIAL BANKS AND SAVINGS AND LOAN ASSOCIATIONS have difficulty identifying a niche for "community lending" within their normal course of business. When criticized by neighborhood organizations or regulators for not meeting community credit needs, bank management often feels that it is being pressured to make bad loans. On the other hand, community groups often have difficulty differentiating between social needs and bankable deals.

There are many reasons why a financial institution decides that it is desirable to stretch itself to meet more of the community's credit needs. It may wish to increase its business, obtain regulator approval to expand, abate activist pressure, improve its image in the community for business purposes, or assume a direct role in improving

the neighborhood environment to protect its asset and customer bases. The challenge such a financial institution faces is how to upgrade its community lending activity and reputation while remaining within the parameters of sound business practices.

Woodstock Institute is a not-for-profit organization that specializes in policy analysis and program design in precisely this area. Its clients are typically community organizations, financial institutions, and local governments. A premise of the Woodstock Institute's approach is that the choice is not simply between sound business practices and charity. There are several intervening levels of community lending that can satisfy community credit needs without compromising the business interests and fiduciary responsibilities of the bank.

The Concentric Circles of Market Participation

The Concentric Circles Model which is described below has been developed as a planning tool for financial institutions wishing to address one or more of the following goals:

1. Increase lending in the institution's local community.
2. Improve Community Reinvestment Act (CRA) performance and rating.
3. Develop a strategy to address changes taking place in the local community.
4. Develop greater rapport with local organizations.

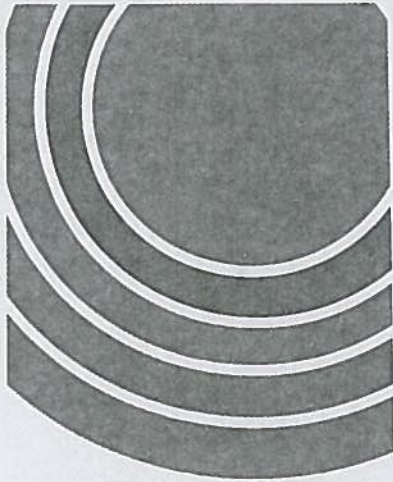
The concept of Concentric Circles helps to visualize the different levels of serving community lending needs between actual market share and the total credit needs of a community economy. (Note: This five-level system has been devised by Woodstock Institute and is not the same as the CRA rating system used by regulators.)



Level 1—What is My Institution's Actual Market Share?

The first and smallest circle represents your institution's current actual lending. When compared to the next circle (Level 2), it shows your market share of the aggregate lending that is being carried out by all banks and savings and loan associations within your primary service area.

This circle is probably much smaller than a lender expects it to be when compared to Level 2. If a lender feels that there is little local demand for its services, Level 1 can be compared with Level 2 to find out whether other institutions have located demand that you have missed.



***Level 2—How Does
My Institution Stack
Up? The Circle of
Existing Loan Activity
by All Lenders in the
Target Area***

This circle represents the bankable deals that are actually originated by all financial institutions doing business in the local community. These loans are sound, obvious and competitive. They go to the financial institution which has tailored the best product, developed the best marketing and advertising strategies, cultivated the best reputation, and is aggressive enough to beat the competition to the punch.

If other institutions are more active in your area than you are, it may in part be due to your marketing approach or the inappropriateness of your products to neighborhood needs.



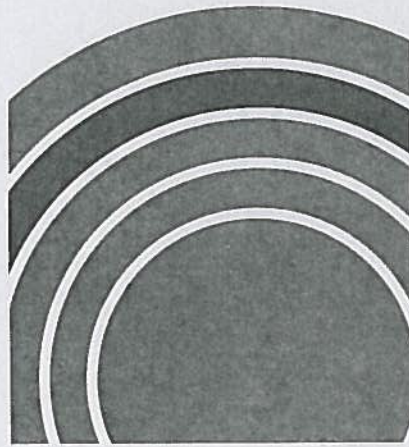
***Level 3—Can
the Market Be
Expanded?
The Circle of
Labor-Intensive,
Bankable Deals***

A yet larger circle consists of bankable deals that have been passed over because of their labor intensiveness. This category refers primarily to sound loans that are too small to be normally considered worth the bank's while. Because larger deals have the advantage of economy of scale, often they are preferred over small deals. This is a question of cost, not risk.

Also included in this market segment are other labor-intensive, albeit sound loans, such as real estate rehabilitation

loans to not-for-profit developers which often are complicated by several sources of financing, financing of mixed-use properties with both apartments and commercial space, and non-traditional deals that fall between the cracks of standardized loan policies but which could be made if extra effort and creativity are put into structuring them.

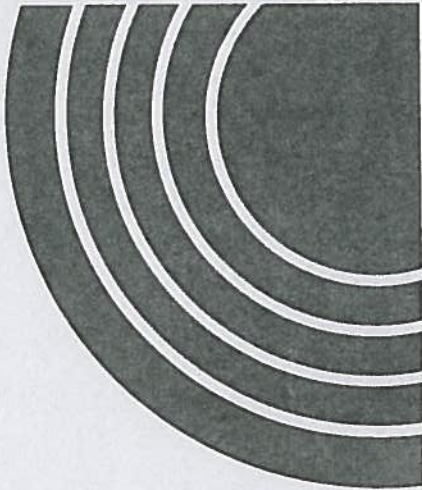
This type of loan is the one which is often the most needed in the community. It is the type of loan in which the bank's knowledge of the local business community and the neighborhood's housing needs can be called upon to reduce both cost and risk. It is most necessary in revitalizing communities and local institutions can develop a market niche for this type of loan that outsiders are unlikely to challenge.



***Level 4 — Forging
New Partnerships:
The Circle of
Bankable Deals with
Third Party Support***

This circle represents that segment of the need for financing that includes deals that would be creditworthy if third party participants were brought into the picture providing insurance, subsidy, equity, or technical assistance. In this market zone fall marginally bankable deals that become feasible with credit enhancement mechanisms such as loan guarantees, interest rate subsidies, or equity participations. Examples include government mortgage bond loan programs, SBA commercial loans, and the FHA loan insurance programs.

Through use of some of these mechanisms, existing products can be tailored to the needs of the businesses and home buyers in your community.



Level 5 — The Circle of Total Community Economic Needs

The largest circle represents the universe of economic resources, both credit and direct assistance, that is needed by people, businesses and institutions within the service area of the bank. Included in this circle is the entire spectrum from bankable credit needs of creditworthy borrowers for housing and business loans to the needs of the very poor for income maintenance and the needs of social service organizations which provide health, education and other services to the poor.

Many financial institutions participate in Level 5 through a charitable giving program. Most are frustrated by the small amounts that they are able to give compared to the extent of the need experienced by residents of their communities. Others assume the role of an institutional

leader that can leverage other resources and bring them to bear on particular problems. One example of this is the role corporate lobbyists can play in securing legislative approval for subsidy programs that provide resources for community development. While charitable giving is commendable and such programs should be continued, an effort by the bank to meet the community's needs through expanding its business in Levels 2, 3 and 4 can have a much greater economic impact on the primary service area than philanthropy alone.

Using The Concentric Circles Model

Community credit needs, market needs, market opportunity and good business often overlap to a greater extent than is recognized by most financial institutions. Whether the financial institution wishes to focus on retail commercial lending, industrial finance, real estate loans, or consumer credit, there is generally an opportunity to improve and expand its lending to increase market share and better serve the needs of the neighborhood without sacrificing portfolio quality or overall profitability. Five key conclusions can be drawn from this

explanation of the Concentric Circles Model:

1. First, whatever the bank is currently doing, no matter how small or limited, it is serving a community need for credit. (Level 1)
2. The bank can increase its role in meeting the community's needs for credit while remaining totally within the traditional world of banking by simply being more aggressive and succeeding in achieving a larger share of the existing market. (Level 2)
3. The bank can serve an even greater portion of the social credit needs of the community *without incurring greater risk* or compromising the quality of its portfolio. It can do this by expending more time (and money) on bankable but labor-intensive deals. (Level 3)
4. The bank can attain a high level of corporate social responsibility by thoughtfully working with third parties to make marginally bankable deals bankable. When done selectively and skillfully, this approach need not incur an unacceptably high level of risk nor an intolerable amount of extra work. (Level 4)
5. As a lending institution with fiduciary responsibility, the bank cannot be expected to penetrate the world of eco-

nomic need beyond Level 4 with credit. Level 5 activity involves grants and subsidies and should be recognized as such. The bank may wish to have a role in this part of community life but the role will be one of a contributor and corporate leader rather than one of a lender.

The Concentric Circles Model can provide a framework for reviewing options and making choices which will increase loan volume, expand customer base, increase profitable business, and significantly contribute to the economic well-being of the community. Your institution may find it useful to review the Concentric Circles Model and to think about it as a conceptual guide for organizational planning. However, the model may also be used as part of a rigorous process of planning which results in informed decision-making and a conscious strategy of increasing market participation and strengthening CRA performance.



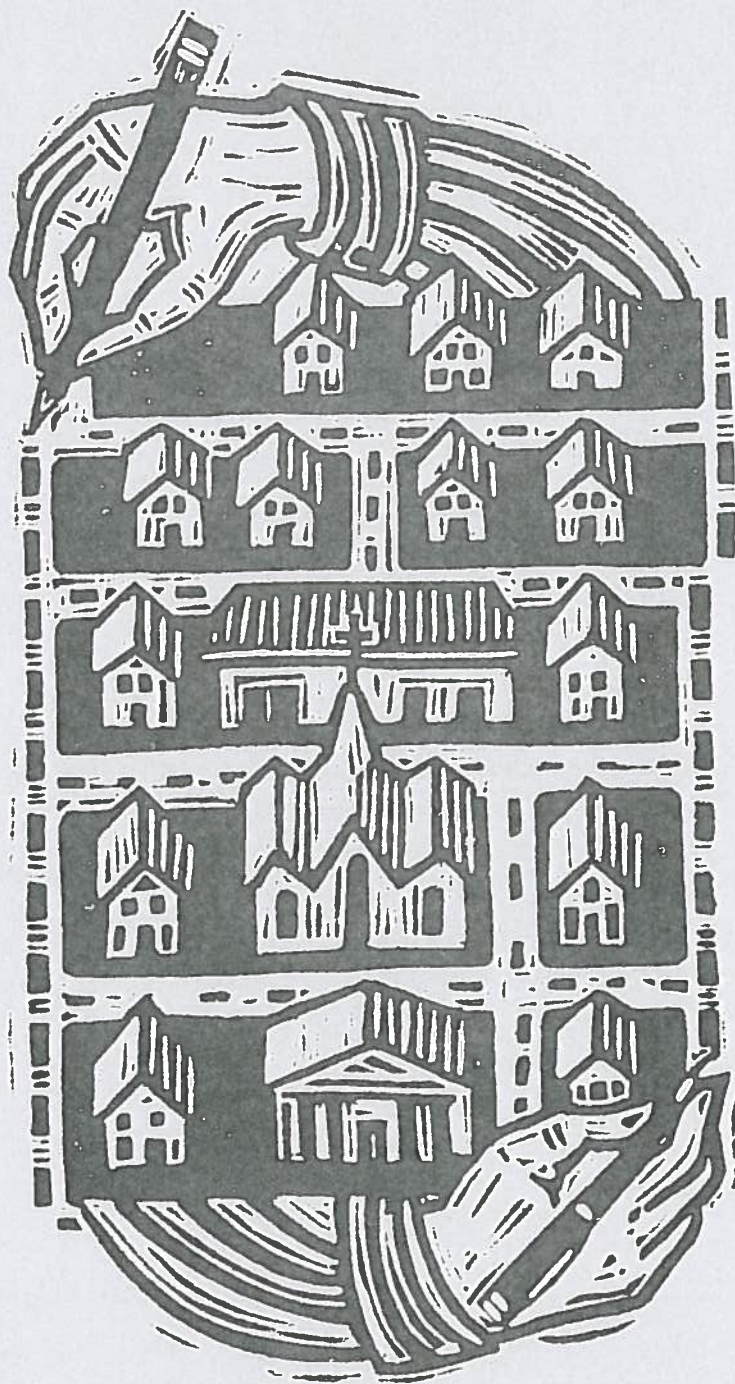
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REVIEWING YOUR CRA STATEMENT

IN CONJUNCTION WITH THE TWELVE CRA Assessment Factors (see the table on page 19) used by bank and thrift examiners in their CRA examinations, a financial institution's CRA statement establishes the framework against which that institution's reinvestment performance can be evaluated. The CRA statement is the institution's public statement of what it considers its local community and what credit needs characterize that community and how as a lending institution it meets those needs. As such, it is important that the CRA statement clearly and accurately describes the community and its credit needs in a way that can be recognized by both customers and regulators alike.

The CRA statement must include those components required by federal regulators for

such a statement: a delineation of the institution's local community, with a map; a list of the types of credit offered within this community; and a public notice about the operation of the Community Reinvestment Act. Institutions, however, are encouraged to adopt expanded CRA statements that include information regarding: efforts made to determine community credit needs; steps taken to meet credit needs; a summary description of its record of helping to meet community credit needs; and a description of the marketing and advertising programs used to inform the community of its products and services. Consequently, when assessing the adequacy of its CRA statement, an institution should first review its statement to determine the degree to which it meets the



expanded, nonmandatory requirements. Then it should review the statement to make sure it accurately portrays what the institution is actually doing to meet community credit needs.

In undertaking a review and analysis of its CRA statement, there are five key steps that an institution may wish to follow. These steps focus on activities to be undertaken by banks and thrifts to improve lending in their communities. The emphasis here is on what an institutions should do to better meet community credit needs. Once an institution has successfully completed all five steps it will be able to easily construct an expanded CRA statement.

Where to Draw the Line(s): Defining Your Community

Generally, an institution's local community is the community, city or county or group of communities, cities or counties listed in a bank or thrift's CRA statement. This delineation should be of a geographic area immediately surrounding the financial institution's office from which it draws many of its customers. The boundaries for the service area typically coincide with locally recognized boundaries such as political boundaries or physical barriers. However,

they may also coincide with what the institution defines as its effective lending territory which may or may not match the other boundaries.

In assessing the appropriateness of a delineated community, financial institutions should examine several elements. First and foremost, the institution should be sure that the community it has defined for CRA purposes is a geographic area, not selected classes of people or businesses.

Second, boundaries should be carefully studied to make sure they do not unreasonably exclude low- and moderate-income or minority communities. Banks and thrifts should consider this a possibility when: boundaries are irregular and do not conform to generally recognized neighborhood or physical boundaries; only portions of an identified community are included in the service area; or when different branch offices utilize different radii to illustrate their primary market area. When justifiable reasons exist for partial designations or market areas of different sizes, they should be explained in the CRA statement.

Finally, each institution should evaluate whether the area delineated for CRA purposes is of an appropriate size given the institution's asset base. The expectation of members of that

community and of the regulators is that the bank will help meet the credit needs of the whole area that it has defined as its local community, not just certain portions. As a result, each lender should take care not to identify an area that exceeds its ability or resources to respond.

Identifying Community Credit Needs

The second step in this process relates to an institution's activities in determining the credit needs of its community and incorporates assessment factors 1, 2 and 3 (see table on page 15). This topic is the core of an effective CRA statement. It should clearly describe the institution's assessment of the credit needs of its delineated community, and the process by which the institution arrived at that assessment and continues to update it over time. Excellent performance in this category consists of "identifying the demographic makeup of the community and making meaningful contact with a reasonably full range of organizations to assist in determining the credit needs of all segments of the community; taking into consideration comments to the public file which describe existing unmet credit needs; contacting local

government officials to identify any needs for private lender participation in...community development or redevelopment programs."

Census Data Analysis

The determination of community credit needs should be based in part on an analysis of demographic data at the census tract level about the makeup of the bank's local communities. It is useful to evaluate data on the type and number of housing units as well as patterns of homeownership to assess housing credit needs; analyze development trends and economic conditions, particularly those affecting small business, prior to forming conclusions about small business credit needs; and identify particular segments of the community through review of income, race and employment data to define "special" credit needs that may warrant targeted lending programs.

It is also useful to present such data in the CRA statement. The U.S. Bureau of the Census publishes summary census data on population and housing by municipality, county, and standard metropolitan statistical area (SMSA) following every decennial census. Municipal and regional

planning departments frequently update the census midway through each decade. The absence of this data seriously weakens a CRA statement.

Discussions With Community Representatives

A second method for ascertaining credit needs is by interacting with community representatives. By discussing community credit needs with local community organizations, financial institutions can test the assumptions they have developed from analysis of census data as well as develop a better understanding of what the community perceives as barriers to credit.

Contacts with important community actors must take place in a serious and ongoing manner to contribute substantially to an understanding of community credit needs. Contacts need not be limited to organizations dealing with development or credit-related issues to contribute to a clearer understanding of the community's credit needs. Frequently, local churches and social service organizations can also provide valuable information regarding credit needs and barriers to financing in their communities. Financial institutions should also maintain regular contact with public sector housing and eco-

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T W E L V E C R A A S S E S S M E N T
F A C T O R S U S E D B Y
R E G U L A T O R S I N C R A E X A M S

① Activities conducted by the institution to ascertain the credit needs of its community, including the extent of efforts to communicate with members of its community regarding the credit services being provided by the institution.

② The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

③ The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

④ Any practices intended to discourage applications for types of credit set forth in the institution's CRA statement.

⑤ The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

⑥ Evidence of prohibited discriminatory or other illegal credit practices.

⑦ The institution's record of opening and closing offices and providing services at offices.

⑧ The institution's participation, including investments, in local community development and redevelopment projects or programs.

⑨ The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

⑩ The institution's participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses, or small farms.

⑪ The institution's ability to meet various community credit needs based on its financial condition and size, and legal impediments, local economic conditions, and other factors.

⑫ Other factors that, in the agency's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.



conomic development agencies in addition to local development corporations, social service agencies, housing groups, churches, chambers of commerce and real estate specialists.

In addition to being a source of information about credit needs, community organizations and development corporations can be valuable partners in helping a financial institution strengthen its reinvestment performance. Because of their expertise and experience within the low-income community, community-based organizations can help financial institutions design lending programs and/or products that are well suited to the credit needs being targeted. Once designed, they can actively market the lender's products by distributing brochures and by making presentations at community meetings. Finally, they can help institutions capture a larger share of labor intensive and/or third party deals by acting as loan packagers or by securing public or foundation resources that make the bank financing work.

Intermediaries are another type of private nonprofit organization that can assist lenders in improving their community reinvestment record. These alternative financial institutions include community development credit unions, community loan funds, specialized venture

capital funds and a few development banks. They have emerged to provide credit and capital to disadvantaged communities for business, housing and other community development activities. While they can help banks and thrifts meet community credit needs, they are not a substitute for direct lending by the institution itself.

The review of objective data on its community and discussions with community representatives should lead the financial institution to a conclusion about the scope and range of credit and financial services needs within its local community. This conclusion should be clearly defined to enable the bank or thrift to determine how to respond to the credit needs within its local community. Financial institutions should not stop, however, at simply defining these needs. Existing loan products should be evaluated to determine how well they can meet credit needs and, where gaps exist, new products should be designed to better meet existing credit needs.

Financial institutions should also assess the extent to which other financial institutions in the area are meeting these needs. This can be done through an analysis of aggregate HMDA data and closer examination of competitor HMDA data (see below) as well as surveys of other

loan products in the marketplace. Such a study of competitors will test the competitiveness of the institution's products and may demonstrate product gaps or niches that can be filled by your institution.

HMDA Data Analysis

Institutions can review Home Mortgage Disclosure Act (HMDA) data to ascertain how the market is responding to community credit needs and how this response varies by census tract or community. An examination of residential lending by all financial institutions will provide a snapshot of lending in the community that may reinforce findings from census data and community representatives. HMDA represents the most comprehensive and concrete set of lending data available at the local level and should be used by institutions to gauge community demand for different products as well as to identify what local competitors are doing to meet community credit needs.

Federal regulators serve as a key source of information on HMDA. In each metropolitan area, HMDA data is stored at a central depository where it can be examined either on computer or in a hard copy format. Woodstock Institute can also serve as an important resource to

banks and thrifts interested in developing a community lending profile. The Institute annually issues a *Community Lending Fact Book* for Chicago that illustrates residential lending patterns and census data for every community in the city. For institutions operating outside of Chicago, Woodstock can prepare special community lending profiles on a fee-for-service basis.

Deciding Which Loan Products to Offer

The third step in the process of developing a CRA statement and strengthening reinvestment performance consists of assessing the institution's current line of financial products, services, policies and procedures in light of the community's credit needs. In this stage, a bank or thrift should review the types and amounts of credit extended to the community and the degree to which those extensions help to meet community credit needs. This category includes CRA assessment factors 9 and 10. Excellent performance in this category involves investigating the need for different types of credit in the community, making an explicit effort to assure that loan policies are responsive to

the need, and examining the extent to which the institution is meeting the need for such loans.

Board Participation

Members of a financial institution's board of directors are critical policy makers that set the tone, style and degree of seriousness of the institution's reinvestment efforts. While they may be a source of information regarding local credit needs, more important is the role they can play in evaluating current policies and formulating new policies to guide the institution's response to identified credit needs. The board of directors should be informed regularly of new or changing community credit needs and possible responses to those needs. In addition, the board should periodically review the institution's community reinvestment performance to ensure that it meets the goals they have set for the institution.

Practices Intended to Discourage Credit Applications

Financial institutions should thoroughly review all of their policies to ensure that none exist simply for the purpose of discouraging applications from certain types of borrowers. Examples of practices

which may be interpreted as having this effect include limiting credit products to existing customers, above-market down payment requirements, removing lending officers from selected communities without establishing a clear process for channeling loan inquiries to other offices, unnecessarily obtuse application forms and unfriendly or biased loan officers. In addition to reviewing application requirements, institutions should conduct regular CRA training sessions with their personnel to ensure a broad understanding of the Act among employees from senior officers down to tellers. They should also affirmatively state in the CRA statement that the opportunity to secure credit is available to all regardless of race, sex, religion and/or national origin.

Adequacy of Products/Services to Meeting Credit Needs

If the institution has clearly defined community credit needs through its analysis of socioeconomic, residential and business data and contact with community representatives, then it can easily determine whether the products and services it offers meet these needs. Nevertheless, banks and thrifts should review

the geographic distribution of their loans, especially in low- and moderate-income and minority areas, to determine whether they are actually serving the credit needs of all of their community. A summary of this information should be included in the institution's CRA statement. Furthermore, an institution may want to document its performance in this area over a period of years to demonstrate its ongoing and/or increased commitment to meeting credit needs. Institutions may want to include information regarding residential and commercial real estate lending, small business loans, farm and student loans.

Institutions should not limit themselves to loan products when deciding how best to meet the community's financial service needs. Rather they should also consider whether special savings and/or demand accounts are justified. For example, a bank or thrift may want to consider offering special services such as low cost "lifeline" accounts to senior citizens or students, or free cashing of government checks. Institutions should also review the location of their branch offices and ATMs to ensure they are located throughout the community.

Listing of Credit Products and Credit Related Programs

The list of credit products offered by an institution will in all likelihood include a range of products for single- and multifamily purchase and rehab, commercial real estate, business (especially small business), consumer, student and, possibly, municipal and/or farm loans. If the institution offers government guaranteed loans for any of these purposes, they should be highlighted. If the institution does not offer these products, it should review the reasons for not doing so and consider including them as well. This section of a CRA statement can be enhanced considerably by including short descriptions of each product so that prospective customers can readily understand each one.

Community Development

This category relates to the institution's participation in community development and other factors relating to meeting local credit needs. It includes assessment factors 8, 11 and 12. Excellent performance in this category includes active participation in the development or implementation of community development and redevelopment programs.

The CRA statement should clearly describe any participation by the bank or thrift in community development efforts. These should be described with enough detail to define the location, scope and purpose of the project, the financial institution's role, the other participants' roles, and the community development impacts. It is perfectly appropriate for the institution's role to be as a lender or, through a bank CDC, as an investor in the project.

Designing a Community Lending Program

At the time a financial institution files an application with its regulators for permission to merge with or acquire another institution, one of the factors considered by the regulators is the institution's performance under the Community Reinvestment Act. In addition to the regulatory agencies review of the CRA performance of the applicant institution, the CRA gives community organizations the right to comment on the reinvestment performance of the applicant and to request denial of the application. Although procedures vary somewhat at each regulating agency, a formal challenge of an institution's application by

community organizations often results in a delay in the approval process and could potentially lead to denial of the application.

During the 1980s, one of the most common ways of resolving differences between community organizations and financial institutions was the development through negotiation of an agreement outlining the financial institution's commitment to a targeted lending program. In the past, the signing of a CRA agreement with community groups led to the withdrawal of the protest of the application and paved the way for approval of the application assuming the financial details also met with regulatory approval. Although the joint policy statement issued by the regulators in March 1989 (see Appendix C, page 69) clearly indicates that this type of future commitment is no longer sufficient to assure approval of an applicant with an inadequate past lending performance, CRA agreements and targeted lending programs still have a very important role to play in meeting specific lending gaps and as the basis for long term partnerships with community organizations.

The following are some of the key characteristics that set community lending programs apart from other products developed by the bank:

The community has a role in program design, implementation, and monitoring. This is the reality test that ensures that the program, as designed, meets community needs and that all partners are carrying out their responsibilities as agreed upon. Representatives of community organizations can be an important source of information regarding demand for particular loan products and what underwriting criteria and terms will fill community credit gaps.

The program is designed to meet the unmet banking and credit needs of the community. It contains a mixture of needed provisions, such as home mortgages, home improvement loans, apartment building financing, and small business loans. It contains no unnecessary provisions and few provisions for which little loan demand exists. It may contain agreements as to the process by which certain lending-related activities such as appraisal or loan packaging will be carried out.

The program clearly reflects the goals of the participating organizations. A housing development organization may be seeking financing for rehabilitation of apartment buildings, while a business organization may seek lenders who will make Small Business Administration loans.

The program works for the people it is meant to serve. Each reinvestment partnership must be carefully evaluated to ensure that the problems being addressed have banking or credit solutions. Then, the program must be creatively designed to ensure that the customers addressed can afford to use the programs offered. This sometimes requires that outside technical assistance be brought in to help design a program that results in affordability through the best, most highly leveraged use of government subsidies, insurance programs, contributions from foundations, and bank participation in public programs.

The program is initiated via a partnership that is clearly and carefully structured so that each partner organization has a role to play. A partnership in which a community organization does the marketing, another does loan screening, and the bank makes the loan may ultimately work better than a lending program that leaves total responsibility to the bank. Partners should be equal but independent, should be assigned to do what they each do best, and each should have a self-interest in making the partnership work. For the financial institution, the self-interest is profitable business, good service to customers and a high CRA

rating. For community organizations, the self-interest is building membership through good service to constituents and renewing their communities. In addition, fees or grants may be built in to help compensate the implementing partners for their costs.

The program is structured simply, and each partner's responsibilities are as close as possible to normal business practice. A simple program design will help all partners and users clearly understand its goals and operations. A program which allows each partner to do what it does best is most likely to operate smoothly. For example, financial institutions are set up to accept and evaluate loan applications. If community meetings are required to market the program, these can be more successfully arranged by community organizations. It is best to assign implementation responsibilities that reflect the strength of each of the partners.

Public subsidies are used strategically if needed to make the program affordable. A public agency may become a partner if public resources are needed to improve the program. It may provide subsidies, loan guarantees or deposits. Efforts should be made in the program design process to avert unnecessary red

tape and delays when a public agency is part of the partnership.

A monitoring system is built in upfront. In the initial program design phase, regular meetings should be established to require each participating organization to report back to all of the others on progress and problems. Frequently an oversight committee comprised of both community and bank representatives is established to monitor program implementation. Goals should be collectively established for the upcoming period, and program or procedural problems that develop should be solved. Program changes may be made to correct a part of the program that is not working.

An evaluation methodology and timetable are clearly delineated. The evaluator should be selected, the evaluation scheduled, and the point within the program timetable that the evaluation should occur should all be included in the program design. The evaluation is an opportunity to discuss and change any parts of the program that are not effective.

A model community lending program has been included as an example of what has been implemented in one locality. The program was designed and instituted this year by an eastern financial institution in conjunction with a coalition of commu-

nity based organizations to better serve the credit and banking needs of the low- and moderate-income areas within the local community. The program is specifically targeted to 30 low- and moderate-income census tracts within the lender's CRA community.

Numerous examples of successful lending programs exist across the country. Lenders may wish to review several lending programs before designing their own. A list of resource organizations with information about community lending programs is included in Appendix D, beginning on page 77. Financial institutions should develop a program tailored to the credit needs and gaps of their own communities as well as to their own and the community's capacity to generate demand for the products.

A Model Community Lending Program

Outline

- A. Housing Development Initiative
 - Individual Home Mortgage Terms
 - Home Improvement Loan Terms
 - Credit Criteria for Qualified Borrowers for Residential Mortgages and Home Improvement Loans
 - Residential Development Project Loan Terms
- B. Site Option And Pre-development Revolving Fund
- C. Economic Development Through Establishment of Small Business Loan Pool
- D. Expansion of Deposits and Administrative Support for a Community-Based Federally Chartered Credit Union
- E. Student Loan Program
- F. Loan Counseling Program
- G. Marketing Plan
- H. Advisory Committee
- I. Definitions

A community lending program expresses the bank's commitment to meeting the credit needs of the low- and moderate-income residents within its local community area.

A. Housing Development Initiative

BANK will establish a loan pool of \$6,000,000 a year for the next five years, on a cumulative basis, for a total of \$30,000,00 for (1) individual home mortgages, (2) home improvement loans, (3) residential development project loans for rental and home ownership, and (4) land/construction related infrastructure loans. Of the \$6,000,00 annual allocation, \$500,000 will be made available each year for individual residential home mortgage credit to public housing residents, and Section 8 FmHA or RRH housing certificate holders at an interest rate of one percentage point below **BANK'S** Conventional Rate. Of the \$6,000,000 annual allocation, an additional \$500,000 will be made available each year for individual residential home mortgage credit to any other qualified borrowers at an interest rate of one percentage point below **BANK'S** Conventional Rate. Any amount of each of these \$500,000 portions which is not used during the designated year shall be carried forward and remain available for similar loans at the reduced rate in the following years. **BANK** will use its best efforts to lend \$30,000,000 over the next five years to qualified borrowers in **COMMUNITY** with priority given to qualified borrowers in the targeted census tracts located in **COMMUNITY**. Any loan pool monies remaining at the end of the five years will automatically remain available for the aforementioned purpose for three years thereafter.

All loans qualifying under (1) or (2) above shall be for owner-occupied dwellings, and the qualified borrower must assert in the loan application that the sole purpose of the loan is for the acquisition of, addition to or improvement of the owner-occupied dwelling and that 100% of the loan proceeds shall be applied to such purpose. For loans made under (1) or (2) above, the dwelling must be the qualified borrower's principal residence.

Notwithstanding anything in this program description to the contrary, if the percentage of the non-interest accruing, seriously delinquent (90 days or more) or losses on loans and other extensions of credit granted pursuant to the loan pools exceeds one and one-half times the rates experienced by **BANK** on similar loan products, the underlying credit terms or criteria per each category of loans will be evaluated and modified to correct such problems.

Individual Home Mortgage Terms

The terms offered to individual home mortgage qualified borrowers will be as follows:

A community lending program should meet unmet banking and credit needs.

1. **BANK** will waive one-half of one point of application and origination fees normally charged. If the qualified borrower successfully completes a loan counseling program, **BANK** will waive an additional one-half of one point of application and origination fees normally charged.
2. A qualified borrower will pay one-third up to a maximum of \$100 of the loan application and origination fees upon submission of the application with the balance due upon approval for appraisal.
3. A qualified borrower may pay a minimum net 5% down payment if the borrower obtains mortgage insurance; a net 20% down payment will not require mortgage insurance. **BANK** will make a good faith effort to provide at least 20% of successful applicants financing of up to 75% of their down payment and closing costs according to criteria determined by **BANK**, including but not limited to recent credit history and current income, provided that in no event will the total indebtedness exceed the purchase price of the principal residence.
4. **BANK** will permit qualified borrowers to finance all or a portion of their down payments through other sources, so long as both the qualified borrower (if more than one, all joint obligors) and the other lender agree to subordinate such debt in a manner satisfactory to **BANK** which provides, *inter alia*, that the other lender may not foreclose on the principal residence without the written consent of **BANK**.
5. Special efforts will be made by **BANK** to assist qualified borrowers to obtain mortgage insurance.
6. In special cases as determined by **BANK** (taking into consideration such factors as recent credit history and current income), FHA loan to value and housing expense to long term debt ratios will be applied whether or not the mortgage is conventional, or other mortgage insurance is obtained.
7. **BANK** will extend mortgages to qualified borrowers under Fannie May, Freddie Mac, and conventional programs. **BANK** is also prepared to offer FHA, VA and Farmer Mac mortgages to qualified borrowers and will consider any other government insured program including but not limited to 203K and FmHA.

*The program
must work for the
low-income people
it is meant to serve.*

8. Qualified appraisers will be mutually agreed upon by **BANK** and the qualified borrower or, in certain instances, as agreed upon by **COMMUNITY-BASED ORGANIZATIONS** and **BANK**. Consent for selection of a qualified appraiser will not be unreasonably withheld.
9. In appropriate cases, **BANK** will lend against the post-rehab value of the property as certified by a qualified appraiser acceptable to **BANK**.
10. Of the \$6,000,000 annual allocation, \$500,000 will be made available each year for individual residential home mortgage credit to public housing residents and Section 8 and FmHA RRH housing certificate holders and an additional \$500,000 will be made available each year for individual residential home mortgage credit to any below **BANK**'s Conventional Rate. Except for the two \$500,000 portions of the loan pool set forth above, **BANK** will offer qualified borrowers an interest rate of one-quarter of one percentage point below its Conventional Rate. For each year, **BANK** agrees to use all of the two \$500,000 portions of the loan pool, including any carryovers, at the reduced interest rate before imposing the interest rate of one-quarter of one percentage point below its Conventional Rate provided the qualified borrower meets the criteria of the appropriate \$500,000 portion.
11. The interest rate in effect on the date the qualified borrower submits a completed application with all exhibits will remain in effect for 60 days and will be the applicable interest rate. If the interest rate in effect 10 days prior to the expiration of the 60 day period or the closing date, whichever is earlier, is lower than the effective interest rate on the date the completed application was submitted, the lower interest rate will prevail.
12. **BANK** will consider supporting home ownership projects developed by governmental and other entities that involve lease/purchase agreements. Any money lent for such projects will be credited against the \$30,000,000 loan pool.

Home Improvement Loan Terms

The terms offered to home improvement loan applicants will be as follows:

1. **BANK** will extend loans starting at a minimum of \$1,500.
2. Qualified borrower will pay \$75 or 100% of **BANK**'s out-of-pocket expenses, whichever is less, prior to loan disbursements.
3. In appropriate cases, **BANK** will lend against the post-rehab value of the property as certified by a qualified appraiser acceptable to **BANK**.
4. **BANK** will offer qualified borrowers an interest rate of one percentage point below its Conventional Rate.
5. In appropriate cases, **BANK** will refinance a qualified borrower's current permanent mortgage and include the home improvement loan in the refinanced mortgage.

Credit Criteria for Qualified Borrowers for Residential Mortgages and Home Improvement Loans

Credit criteria for mortgage and home improvement loan applicants will be as follows:

1. All traditional sources of income will be considered and accepted by **BANK** as well as income from government sources, self-employment, part-time employment, alimony and child support.
2. Applicants must demonstrate written verification of three years of income, regardless of source.
3. **BANK** will consider only the previous three years of the qualified borrower's credit history.
4. Absence of a credit history will not automatically disqualify a qualified borrower when in **BANK'S** opinion the borrower's current income indicates an ability to repay the loan.
5. A qualified borrower with a satisfactory payment record within the previous twelve months prior to the submission of the loan application will not be automatically disqualified due to a prior poor credit history.
6. **BANK'S** credit application will include a section that will allow all applicants to explain unique circumstances regarding credit history. Applicants with a less than a normally acceptable credit history within the three years immediately preceding submission of the loan application will be afforded an opportunity to provide additional explanation on the application.
7. **BANK** will not charge prepayment penalties.
8. Qualified borrowers may be eligible for a one-time moratorium on payment in cases where serious delinquency (90 days or more) has been caused solely by circumstances beyond the control of the qualified borrower as determined by **BANK**. To be eligible for such moratorium: (1) the qualified borrower must immediately notify **BANK** of the circumstances causing delinquency within 90 days of the first billing causing the qualified borrower to be delinquent; (2) the qualified borrower must execute a repayment agreement with **BANK** providing that after the six month moratorium qualified borrower must repay the amount within 12 months; and (3) unless **BANK**, in its sole discretion determines that it is not required; qualified borrower must sign a written acknowledgment that such moratorium is contingent upon attendance of loan counseling, and such attendance must be periodically certified by a loan counselor to **BANK'S** satisfaction. An individual qualified borrower is only eligible for one moratorium and if the loan is the obligation of more than one qualified borrower, all joint obligors must execute the repayment agreement. The six-month moratorium commences on the date of the first billing that causes the qualified borrower to be delinquent.
9. Notwithstanding the above credit criteria, if the qualified borrower is seeking financing 100% underwritten or otherwise 100% guaranteed by a governmental or other program that allows more liberal credit criteria, the more liberal credit criteria will be applied.

Creative solutions must be developed to meet those credit needs that aren't met by standardized loan products.

Residential Development Project Loan Terms

The terms offered for residential development project loans will be as follows:

1. Permanent financing for residential projects will be offered at a fixed interest rate not to exceed one and one-half percentage points above **BANK'S** Prime Rate and for maturities of 15 years or such lesser term as requested by the qualified borrower. Terms of loans will be determined on a case-by-case basis. All loans, irrespective of the length of loan, will be amortized over 25 years with a 15 year balloon. **BANK** will provide a total of \$5,000,000 from the \$30,000,000 loan pool for permanent financing of residential projects over the next five years, with a \$2,000,000 maximum loan per project.
2. Permanent financing for low- and moderate-income rental/ownership development projects will be on a non-recourse basis where the loan-to-value ratio is equal to or less than 80%. **BANK** will consider non-recourse loans with loan-to-value ratios up to 90% on a case-by-case basis.
3. Interim/construction loan financing will be offered at up to 80% of the post-construction value, including land, as certified by a mutually agreed upon qualified appraiser. The cost of such appraiser will be borne by the qualified borrower. **BANK** will consider loans of greater than 80% of post-construction values on a case-by-case basis.
4. Interim/construction loans will be offered at rates not to exceed one and one-half percentage points above **BANK'S** Prime Rate.
5. **BANK** will not assess any prepayment penalties on loans.
6. Fees for this loan category shall not exceed one percent.
7. **BANK** will on a case-by-case basis, consider issuing letters of credit under 501(C)(3) bond issues.
8. **BANK** will, on a case-by-case basis, consider favorably modifying credit terms to residential developers where opportunities exist for **BANK** to engage in projects involving, such as, but not limited to, programs involving the local housing authority, tax-free multifamily housing bonds/other governmental and non-government development programs, state and federal tax credits such as Low Income Housing Tax Credits and Neighborhood Assistance Act tax credits which result in financial advantage to **BANK** and/or where lending and interest rate risks are minimized by loan or deposit guarantees from governmental as well as other sources.
9. **BANK** will prudently seek to use a portion of the \$30,000,000 loan pool to finance infrastructure for low- and moderate-income housing projects at interest rates to be determined on a case-by-case basis, generally not to exceed one and one-half percentage points above **BANK'S** Prime Rate.

Public subsidies should be used strategically to make the program more affordable.

B. Site Option and Pre-Development Revolving Fund

BANK will provide a \$250,000 revolving fund for a period of five years. Loans of up to \$40,000 each will be made available to not-for-profit agencies and non-profit organizations or public bodies for site options and pre-development

expenses such as: legal fees, architectural and engineering services, marketing studies and consultant packaging necessary for the development of low- and moderate-income housing projects. Priority for lending hereunder will be given to projects located in the targeted census tracts. Funds will revolve and be paid back from previously identified federal, state or private sources indicating the loan was not speculative by nature. The interest rate for such loans will be no greater than **BANK'S** Prime Rate. **BANK** will consider increasing the size of this revolving fund based upon its evaluation of the administration of the loans made and whether the fund furthers the goals of the CRA.

C. Economic Development Through Establishment of a Small Business Loan Pool

BANK will establish a loan pool of \$3,000,000 a year for five years on a cumulative basis, for a total of at least \$15,000,000. **BANK** will use its best efforts to lend a substantial portion of the \$15,000,000 over the next five years to small businesses and for commercial development projects in the targeted census tracts. Loan monies (inclusive of lines of credit) will be made available at one-quarter of one percentage point below the Small Business Loan Interest Rates charged by **BANK**.

In determining appropriate business loan terms, **BANK** will, to the extent it is within the realm of financial safety and soundness, make a good faith effort to utilize underwriting loan criteria, inclusive of, but not limited to, the following:

1. Loan maturities of up to 15 years for commercial real estate loans, up to 7 years for non-real estate loans, and, on a case-by-case basis, up to 10 years.
2. Delayed amortization allowing the borrower to pay only interest on the loan for a designated period of time before beginning to make payments on principal.
3. Increased loan to value ratios including permitting borrowers to obtain loans from 80% to 90% of the value of the real estate on a case-by-case basis.
4. Permit borrowers to use as collateral items such as accounts receivable, inventory, equipment, as well as real estate.
5. **BANK** will offer loans at a minimum of \$1,500.

D. Expansion of Deposits and Administrative Support for a Community-Based Federally Chartered Credit Union

To further meet the credit needs of the low- and moderate-income community and advance the self-help, community development capability of **FEDERAL CREDIT UNION**, **BANK** will deposit \$100,000 with **FEDERAL CREDIT UNION** for five years at an interest rate of 3%, or the rate paid to other large time depositors or the rate paid to individual depositors, whichever is greater, provided the following conditions are met continuously and uninterrupted throughout the term of the deposit.

The problems addressed by a community loan program must have banking or credit solutions.

Deposits in community development credit unions offer a safe insured way to extend banking services to those residents whose credit and deposit needs are too small or too unique to be bankable.

1. The **CREDIT UNION** will provide evidence to **BANK** that the **CREDIT UNION** was solvent for the two fiscal years immediately preceding the deposit.
2. Annual audits will be conducted by independent public accountants.
3. The **CREDIT UNION** will provide proof that it is fully insured by the National Credit Union Association (NCUA deposit insurance fund) or similar federal deposit insurance fund.
4. The NCUA deposit insurance fund is financially solvent.

In addition to depositing \$100,000 with **CREDIT UNION**, **BANK** will also provide counseling on such matters as handling the increased administrative and budget/loan counseling duties attendant to lending the \$100,000 deposited by **BANK**, and helping to promote and package consumer, business and mortgage loan applications for **BANK** that are beyond the scope of **CREDIT UNION**'s present lending and operational capabilities.

E. Student Loan Program

In order to meet the low- and moderate-income community's education loan needs, **BANK** will establish an aggregate \$4,000,000 student loan fund for five years for students from low- and moderate-income families residing in the targeted census tracts.

BANK will continue to participate in the Guaranteed Student Loan Fund. As long as it does not preclude **BANK** from selling such loans in the secondary market or affect the guarantee provided by the appropriate governmental entity, **BANK** will not require co-signers or conduct credit checks.

BANK will aggressively market the Guaranteed Student Loan Fund program with high school counselors and with finance officers of accredited colleges, business and vo-tech institutions and other accredited educational institutions throughout the community.

BANK will make every effort to lend 70% of the \$4,000,000 student loan fund to students in the targeted census tracts enrolling in an educational institution for the first time and 30% to students already enrolled in such educational institutions.

F. Loan Counseling Program

BANK will provide an annual grant in the amount of \$27,500 for each of the next five years towards the cost of providing HUD certified loan counselors for a community-based loan counseling program. These monies will be used to support the salaries and operations of loan counselors.

Loan counselors will be employed by and under the supervision of one or more community-based organizations located in the community. The **BANK'S** advisory committee will recommend the community agency or agencies to receive the funding for the loan counseling program with consent of **BANK**. **BANK** will not unreasonably withhold its consent. The community agency or agencies may be changed with the mutual consents of the advisory committee and the **BANK**.

BANK will assist in the training of the loan counselors with respect to such things as application procedures, loan terms, underwriting criteria and other relevant matters. Quarterly reporting will be required of loan counselors describing counseling efforts in detail satisfactory to **BANK**. **BANK** shall review the success of counseling on an annual basis to ascertain whether addition of more counselors is justifiable based upon evaluation criteria developed by the **BANK**'s advisory committee.

G. Marketing Plan

BANK will develop and implement a marketing plan for the purpose of carrying out the terms and achieving the goals of the lending programs described above. The principal objectives of the marketing plan will be to carry out the lending goals for the Housing Development Initiative and other related **BANK** funded housing programs, other small business and commercial lending and any loan counseling program as described in Section F. The primary focus of the marketing plan will be the targeted census tracts.

The marketing plan will include, but not be limited to:

1. Development of communication materials identifying **BANK** and relevant community-based organizations and governmental bodies and describing lending services and credit terms for distribution to:
 - a. Residents of relevant low- and moderate-income communities.
 - b. Community-based organizations.
 - c. Residential and commercial developers.
 - d. Real estate brokers.
 - e. Government agencies and departments.
 - f. Religious organizations and institutions.
2. Periodic advertisement on radio and/or TV stations at standard rates with substantial listenership and viewing audience in **BANK'S** low- and moderate-income communities.
3. Periodic advertisements in print media such as general circulation newspapers, community and religious newsletters, bus billboards, retail circulars and other newsletters with substantial subscribership in low- and moderate-income communities.
4. Development of specialized letters and flyers for distribution to residential and commercial developers and real estate brokers who have a high volume of business in low- and moderate-income communities.
5. Distribution of brochures and other materials by tellers and other **BANK** personnel at all branches and loan centers in the vicinity of low- and moderate-income communities.
6. Printed materials will be made available in Spanish, as appropriate.
7. The marketing plan will be developed by **BANK** in cooperation with its advisory committee.
8. **BANK** will absorb its costs associated with the marketing plan.

It is critical that the community share the responsibility for marketing.

H. Advisory Committee

An advisory committee will be established to review and monitor the implementation of the provisions of this community lending program. The committee will also serve as a forum for suggestions and/or complaints for improving the program.

BANK will provide a quarterly report to the advisory committee of the loans made pursuant to the terms of this program.

The advisory committee will represent the interests of low- and moderate-income persons in the targeted census tracts and will be comprised of four (4) members appointed by community groups and three (3) members appointed by **BANK** including the designated officer charged with carrying out the program. The advisory committee will meet monthly during the first year and at least quarterly thereafter. The advisory committee's duties and responsibilities will include but not be limited to:

1. Review the **BANK'S** performance.
2. Review, at the discretion of the Committee, of individual loan approvals and denials.
 - a. **BANK** will make available a "confidentiality waiver form" to borrowers for purposes of allowing the advisory committee to review at its discretion credit aspects of the application and **BANK'S** decision. Advisory committee members must execute a confidentiality agreement as well.
 - b. At the advisory committee meetings, **BANK** will provide the advisory committee with a report prepared by **BANK** which sets forth, as to each loan category under this program, the following data related to loan activities in the targeted census tracts for the preceding period:
 - (1) The number of loan applications received including referrals from each targeted census tract.
 - (2) The number of applications approved and denied in each of the targeted census tracts.
 - (3) The number of applications approved and the total amount funded by both loan category and targeted census tract.
 - (4) As to all applications denied, the principal reasons for denial.
 - (5) **BANK'S** loan repayment experience.
 - (6) Any additional information reasonably requested by the advisory committee.
3. Review the performance and effectiveness of the Loan Counseling Program.
4. Review the progress of residential and commercial development loan applications and of projects for which financing has been approved.

A carefully crafted monitoring and evaluation system insures that problems are worked out before they become crises.

I. Definitions

1. Qualified Borrower

A "qualified borrower" for a residential mortgage loan will be defined as: one or more individual members of a household who reside(s) or will reside in **COMMUNITY** and is seeking to purchase a residential property as a principal residence as defined in the Internal Revenue Code of 1986, located within the targeted census tracts whose family income does not exceed 125% of median family income for relevant family size in the relevant community, or as certified as "low-income" by the local housing authority.

A "qualified borrower" for residential development project lending is defined as: (1) A not-for-profit entity seeking credit for the development of a residential development project substantially located or to be substantially located within the targeted census tracts; or (2) an individual or for-profit entity participating in a partnership or joint venture with an eligible not-for-profit developer or community-based organization seeking credit for the development of a residential development project substantially located or to be substantially located within the targeted census tracts. Qualified borrowers must pledge to the not-for-profit developer in writing that the housing to be provided by the development project will be affordable to low- and moderate-income individuals and families for between 7 and 10 years after the completion of the project. The commitment on the number of years will be determined by the scope of the project. Qualified borrowers must also agree to periodic monitoring by the not-for-profit developer during the relevant period to ensure that the housing developed by the project remains affordable to low- and moderate-income individuals and families.

A "qualified borrower" for a home improvement loan is defined as: one or more individual members of a household who resides in the targeted census tracts and owns and resides in the property to be repaired and/or improved.

A "qualified borrower" for small business loans will be defined as: a newly created or existing independently owned and operated business located within the targeted census tracts generally having 50 or fewer employees, \$5,000,000 or less in annual gross sales and financing requirements of \$1,000,000 or less net of real estate secured loans. Priority will be given to small businesses as defined above with 20 or fewer employees.

2. Partnership

"Partnership" shall be defined as: a relationship between one or more not-for-profit entities and one or more for-profit entities in which the not-for-profit entity materially participates in major aspects of the project or joint venture such as, but not limited to: development, financial, budget and management matters. The partnership agreement shall be in writing and shall be for the purpose of development of residential ownership or rental properties for which the purchase price for individual units and/or for which the monthly rental amount shall be affordable to low-or moderate-income individuals and families.

3. Not-for-Profit

The term "not-for-profit" shall be defined as: 1) a private 501(c)(3) tax-exempt entity with a commitment to the development of residential projects

The community lending program partnership should be structured so that each partner has a role to play.

*Clarity in
the agreement
helps to avoid
misunderstandings
during implementation.*

for sale or rent to low-or moderate-income individuals and families, and 2) a public tax-exempt or governmental entity. However, all proposals for residential development loans by partnerships comprised of a for-profit and a public tax-exempt or governmental entity will be approved by the **BANK's** advisory committee in order for the loan to be credited against the \$30,000,000 loan pool.

4. Community-Based Organization

The term "community-based organization" shall be defined as: a 501(c)(3) tax-exempt organization whose primary purpose is to advocate for and/or generate housing and/or economic development in low- and moderate-income communities and whose membership and/or board of directors is substantially comprised of persons of low- and moderate-income.

5. Joint Venture

The term "joint venture" shall be defined as: any project undertaken by a partnership, as defined above.

6. Conventional Rate

The term "Conventional Rate" means the interest rate offered from time-to-time by **BANK** to the general public for a loan which is identical in length, purpose and nature to the loan being offered under this program. Interest rates which may be offered by **BANK** under special programs or which may be offered to a select group of **BANK** customers from time-to-time shall not be considered the Conventional Rate.

7. Prime Rate

The term "Prime Rate" means the published **BANK** prime rate of interest, as it may be changed from time-to-time.

Informing the Community of Your Products and Services

A marketing program is critical to generating demand for an institution's products in any market. It is particularly important in new markets and in those markets where the institution may have a poor image. Without a marketing program, the institution should expect to see no change in the volume or distribution of its lending except those brought about by changes in local and national economic conditions. Marketing efforts must be measured by increased loan application volume. Careful monitoring will soon demonstrate what the most effective strategy is.

A well developed marketing strategy will include advertising in community newspapers, brochures on special reinvestment program(s) and standard products as well as presentations and outreach to individuals, businesses and organizations in the targeted community. When using the media, banks and thrifts should determine whether minority media outlets exist in their community and whether utilizing them will give the institution entree to new sectors of their community. A review of HMDA data and other



loan distribution data might point to opportunities for increased marketing activities in particular areas. When attempting to increase market share in low- and moderate-income areas, it is particularly important to look at nonconventional marketing methods such as presentations at community events, workshops on credit management and financial planning for church-sponsored organizations and advertising in local church bulletins. Advertising and marketing efforts should be fully described in a section of the CRA statement.

Crafting a CRA Statement

Having completed these five steps, an institution is now ready to revise its CRA statement to reflect what it has learned about its community's credit needs and how it intends to respond to those needs. Woodstock Institute has developed a model CRA statement as an example of what an expanded statement might look like. This statement has been drafted for an institution that defines the six-county area of metropolitan Chicago as its community. It should be used only as a guide. Financial institutions must develop a CRA statement tailored to their own outlook,

approach and community. Each institution should develop a CRA statement that clearly informs the public about the institution, how it is striving to meet credit needs in its community, and what its performance has been. A standard statement adopted without thought or discussion will not help an institution increase its lending.

A Model Community Reinvestment Act Statement

Introduction

This is an updated and revised Community Reinvestment Act statement for **BANK** as required by the Community Reinvestment Act of 1977 (Title VIII of the Housing and Community Development Act of 1977, Public Law 95-128). The statement is presented to the public for the purpose of providing means by which to determine whether this institution is meeting its:

continuing and affirmative obligation to help meet the credit needs of its communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institutions.

As required, this statement was adopted by the Board of Directors of the **BANK** at its meeting of November, 1989. This is the eleventh year the Board has reviewed and modified this statement; it will continue to do so annually. On a quarterly basis, the Board reviews and discusses reports regarding community credit needs, recommended responses to changing credit needs, and the institution's overall community reinvestment record. The Statement includes the following required components:

- a delineation of the institution's local community, with a map;
- a list of the types of credit offered within this community; and
- a public notice about the operation of the Community Reinvestment Act.

In addition, the Statement has been expanded to include information encouraged but not required by the legislation:

- efforts made by the institution to ascertain community credit needs;
- special steps taken by the institution to help meet the community's credit needs;
- a summary review of the Bank's community reinvestment performance; and
- a description of the institution's efforts to market its products and services.

The Community We Serve

Delineation

For the purpose of this statement, **BANK** considers its community to be the six-county region of Northeastern Illinois namely, Cook, DuPage, Lake, Kane, McHenry, and Will counties.

This six-county area is home to 7.1 million residents and is a challenging area within which to offer financial and credit services because of the great variety found within its boundaries. The racial composition of the region's population is 73% White, 20% Black, 8% Hispanic and 2% other. In 1980, median

Demographic information about the bank's community service area helps bank employees and community residents appreciate the diverse makeup of the community.

family income for the region stood at \$24,539. While accurate, these numbers mask the great disparities that exist among the many communities that comprise the region.

Almost half (42%) of the Northeastern Illinois region's population resides within the city of Chicago. While Blacks, Hispanics and other minority groups comprise only 30% of the region's population, they tend to be concentrated in Chicago and its inner ring of suburbs and represent a more significant subset of the population in these localities. In Chicago, these groups make up 40%, 14%, and 3% respectively of the population. Other communities, such as Robbins and Ford Heights, are almost completely minority communities. Similar imbalances exist with respect to median family income in the region. Median family income ranges from a low of \$11,240 in Ford Heights to a high of \$66,950 in Kenilworth. Chicago's median income in 1979 was \$18,776.

The region's housing stock breaks out as follows:

Single-Family (1 unit)	1,373,726	52%
Multifamily (2-9 units)	847,366	32%
(10+ units)	395,633	15%
Mobile Home/Trailer	18,910	1%

Total Year Round Units 2,635,635 100%

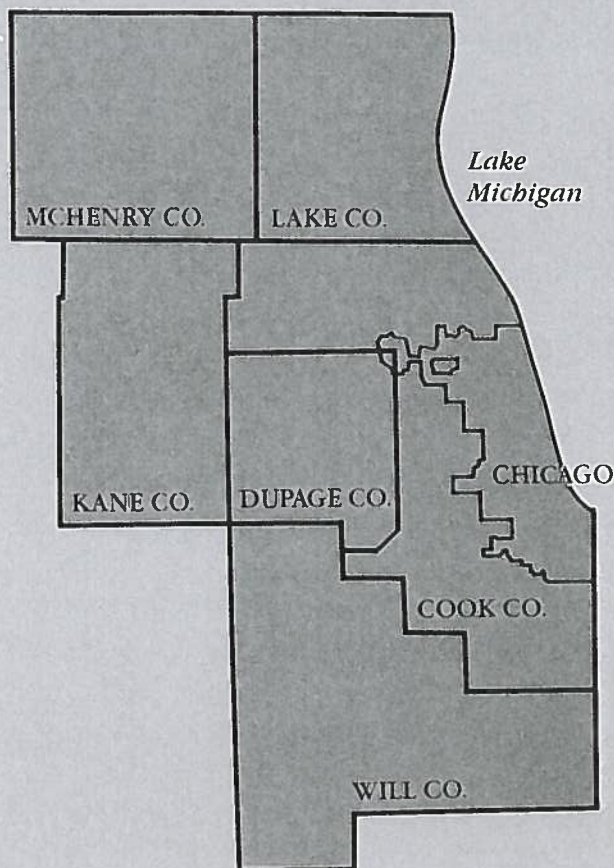
In 1980, 33% of the residential structures in the region were built prior to 1939. The region's median housing value was \$65,800 and 57% of all occupied units were owner-occupied. Again, however, the statistics conceal the diversity and complexity of housing patterns that characterize the region. In Chicago, for example, the housing stock consists of a much lower percentage of single-family homes (29%) and a much higher mix of multifamily structures (71%). The actual numbers are as follows:

Single-Family (1 unit)	340,167	29%
Multifamily (2-9 units)	603,689	51%
(10+ units)	228,199	19%
Mobile Home/Trailer	1,703	15%

Total Year Round Units 1,173,758 100%

Even if one broadens the definition of single-family to include structures with 2-4 units in them, fully 42% of Chicago's housing units are located in structures with 5 or more units in them as compared to 31% for the region. Other communities with a high percentage of their residential units located in multifamily (5 or more) structures include: Justice (54%), Chicago Ridge (62%) and Oak Brook Terrace (64%).

A striking contrast can also be found in the age of the housing, median housing values and owner-occupancy if one compares Chicago to the region. In Chicago, 52% of the housing units were built prior to 1939. Thirty-six percent of Chicago's units are owner-occupied and the median housing value is \$47,200. Median housing values range from a low of \$24,900 in Robbins and \$25,600 in Ford Heights to \$200,100 in Oak Brook and Kenilworth.



Local community areas vary greatly in size. Make sure the designated community area is fair, logical and appropriate to the size of the bank.

Within our metropolitan region, DuPage County is the fastest growing county from a development standpoint. The central city, however, is also beginning to see increased residential and commercial development for the first time in 20-30 years. These developments, however, tend to be concentrated in the Loop, in well-to-do neighborhoods along the lakefront, on the far Northwest side by O'Hare Airport and in suburbs adjoining Chicago.

Chicago has begun to see some new residential and commercial development in its low- and moderate-income neighborhoods. This development is being undertaken by private developers at the urging of and/or in conjunction with local development corporations.

All of these statistics are necessary to understand the credit needs of the region. The socioeconomic data provide an indication of which communities or populations may need special credit products, and possibly financial counseling, in order to purchase a home. The data regarding the local housing stock also points out how the need for different types of loan products will vary by community because of the type of housing and ownership patterns that characterize each community.

Information on housing and commercial development is often available from municipal and regional planning agencies.

DATA SOURCES:

Summary Characteristics for Government Units and Standard Metropolitan Statistical Areas, Illinois, 1980 Census of Population and Housing, U.S. Department of Commerce, Bureau of the Census, October, 1982, U.S. Government Printing Office, Washington, D.C.

General Housing Characteristics, Illinois, 1980 Census of Housing, U.S. Department of Commerce, Bureau of the Census, August, 1982, U.S. Government Printing Office, Washington, D.C.

A short description of the bank's loan products can help prospective customers understand what the bank can do.

Types of Credit and Services Offered

With due regard to safe and sound banking practice, **BANK** makes the following types of credit services available to all qualified individuals and businesses within its community. The opportunity to secure credit from **BANK** is available to all regardless of their race, sex, religion and/or national origin.

Auto Loans	Installment loans for automobile purchase.
Consumer Loans	Both secured and unsecured loans for a variety of purposes. These may be on an installment or single payment basis depending on the amount, duration and purpose.
Government Check Cashing	Free cashing of government-issued checks.
Home Equity Loans	A check-activated line of credit that is secured by a mortgage on the borrower's primary residence.
Home Improvement Loans	Rehabilitation loans for single-family properties secured by a mortgage on the property.
Home Mortgages	Conventional home mortgage loans on residential properties of up to four units secured by a first mortgage on the property. Loans are available up to 95% of the appraised value of the home with private mortgage insurance. FHAVA mortgages are also offered.
Lifeline Checking	Low cost checking accounts for senior citizens.
Mixed-use and Commercial Real Estate Mortgages	Construction, rehabilitation and permanent financing for mixed-use and commercial properties secured by a first mortgage on the property.
Rehabilitation Mortgages	Rehabilitation and permanent financing (in one package) of single-family and multifamily rental properties secured by a first mortgage on the property.
Small Business Loans	SBA guaranteed loans and/or secured or revolving credit to businesses with annual sales between \$1-5 million in size. Loans are for normal business requirements, principally working capital or capital equipment.
Student Loans	Government-guaranteed loans to students, loans to parents to provide additional funding for education and supplemental loans to students at market rates.

BANK has established loan processing facilities at various locations. However, information and application forms for all types of loans are available through any **BANK** facility or by calling **BANK PHONE NUMBER**. Loan applicants should meet with a loan officer prior to submitting their application.

Caring About Community

Because of its present location in and its historic affiliation with Chicago, **BANK** feels a special responsibility toward Chicago and meeting its financial service and credit needs. **BANK** recognizes that the vitality of a community's economy depends upon the flow of credit to purchase and sell homes, to finance repairs and improvements, to rehabilitate apartment buildings, to operate and expand small and large businesses alike and to educate our children. It is the policy of **BANK** to find and develop such opportunities for improving the quality of community life and advancing local business. Consequently, **BANK** has adopted a three-pronged approach to learn the credit needs of this community, especially its low- and moderate-income neighborhoods, so as to better fulfill its reinvestment responsibility. Members of our community are encouraged and welcome to contact us directly to inform us of community credit needs and how we might respond to them.

Participation in Community Organizations

From its experiences, **BANK** knows that its success is tied to the success of the communities it serves. Therefore, it is committed to being an active partner in improving its local communities by being prepared to help foster their development. **BANK** expects its officers to be active in city-wide and community-based organizations and, through such civic service, to bring community credit needs and means of addressing them to the institution's attention. **BANK** officers are actively involved with the following community-based and community development organizations to ensure that the institution is apprised of financing needs for residential, commercial, industrial and business development purposes in the Chicago area:

- Chicago Association of Neighborhood Development Organizations (CANDO)
- Chicago Equity Fund
- Chicago Rehab Network
- Cosmopolitan Chamber of Commerce
- Community Investment Corporation
- Latin American Chamber of Commerce
- Local Initiatives Support Corporation (LISC)
- Neighborhood Housing Services of Chicago

Community residents, organizations and nonprofit developers can be valuable partners in reinvestment.

Contacts With Government Agencies

BANK also maintains regular contact with the following government agencies that have a special interest in and knowledge of community reinvestment:

- Chicago Department of Planning
- Chicago Department of Housing
- Chicago Department of Economic Development
- Illinois Department of Commerce and Community Affairs
- Illinois Housing Development Authority
- U.S. Department of Housing and Urban Development

A well thought out marketing program is critical to increasing loan volume in new markets and in those markets where the bank has a poor image.

Corporate Contributions

BANK is also committed to being an active supporter in improving the social, economic and cultural lives of people in the Bank's communities through its contributions. Significant support is provided through grants, membership dues and investments in local institutions and organizations dedicated to making Chicago a better place to live and work. The following organizations all received financial support from **BANK** in the past year:

Chicago Association of Neighborhood Development
Organizations (CANDO)
Chicago Equity Fund
Chicago Rehab Network
Community Investment Corporation
Neighborhood Housing Services of Chicago

Informing the Community of Our Services/Products

BANK has adopted a two-tiered marketing program to advertise the various products and services offered to our community. The General Outreach program is designed to reach the broadest cross-section of our community as possible. The Tailored Outreach program consists of special efforts made by the institution to target low- and moderate-income as well as minority residents.

General Outreach

- Quarterly ads are placed in broadly distributed daily papers promoting residential mortgage products. Newspapers used for this advertising include a network of suburban and collar county daily and weekly papers.
- Brochures describing the institution's standard as well as government guaranteed loan products are distributed to all public and private agencies with which the institution has contact and are displayed and distributed in the lobby.
- **BANK** has developed and implemented a schedule for regularly calling on small business and nonprofit development organizations to discuss its loan products and the application process to generate demand for small business lending.

Tailored Outreach

- Regular ads are placed in community newspaper(s) serving the area targeted by the institution through its community reinvestment program.

Listed below are several papers serving the Black and Hispanic communities in Chicago that are regularly used by this institution to reach these communities. This list is occasionally augmented to include community newspapers serving specific low- and moderate-income neighborhoods within our local community.

The Chicago Daily Defender
2400 S. Michigan Ave.
Chicago, IL 60616

El Herald Newspaper
3740 W. 26th Street
Chicago, IL 60623

La Raza Publication
3909 N. Ashland Ave.
Chicago, IL 60613

El Mañana
2700 S. Harding Ave.
Chicago, IL 60623

- This institution has established agreements with several nonprofit entities capable of packaging loans for the communities targeted by our CRA investment program. A brochure describing our reinvestment program has been developed and distributed broadly to community residents and business people.
- Periodic presentations on the reinvestment program are made to organizations, residents and business people in the target communities.
- A community reinvestment advisory committee comprised of the financial institution and community representatives has been established to review program achievements and recommend improvements.

Meeting Community Credit Needs: A Status Report

In an effort to better publicize its community reinvestment performance and open this performance to broader public review and comment, **BANK** hereby incorporates data about the volume of new loans made in low- and moderate-income communities over the past year.

Community Reinvestment Program

If an institution has implemented a special community reinvestment program, it should insert a section here that describes the program and its goals, outlines how the program is administered and describes achievements specific to the program.

Business Loans

Small business lending increased by 18% in 1988 over 1987. The institution has emphasized working with businesses that have between \$1-3 million in annual sales. Fifteen percent of the businesses assisted in the past year are minority-owned. Another 25% are located in low- and moderate-income census tracts and draw much of their work force from the surrounding communities.

Inclusion of information on bank lending can demonstrate the bank's ongoing and/or increased commitment to meeting local credit needs.

1985	\$ 4,101,100
1986	5,029,000
1987	7,180,000
1988	8,476,000

Real Estate Loans

In 1988, this institution almost tripled the volume of new residential mortgages originated in low- and moderate-income areas over 1987 lending levels. Similarly, commercial loan volume in low- and moderate-income areas increased by 35% over the previous year with almost half of these loans made for the purchase and rehab of multifamily residential structures (five or more units). As the following breakout for the last five years indicates, 1988 was a continuation of the institution's long-term commitment to meet the credit needs of all segments of its community, especially low- and moderate-income areas within its community.

	Residential	Commercial	Total
1985	\$ 281,330	\$ 645,400	\$ 926,730
1986	355,145	675,155	1,030,260
1987	697,200	1,394,820	2,092,020
1988	1,862,700	1,889,525	3,752,225

Student Loans

In 1988, **BANK** once again contributed significantly toward ensuring that youth from low- and moderate-income areas had a chance to continue their education. The institution lent a total of \$2,576,340 (1,389 loans) to students in the Chicago area.

Over 60% of the new borrowers in 1988 had a low- to moderate-income area home address.

Branch Openings and Closings

No offices have been opened or closed by this institution in the past year. However, as a metropolitan bank, **BANK** maintains a network of ATMs throughout the region. Following a recent analysis of their locations and the distribution of the bank's customers in low- and moderate-income communities, **BANK** established two new ATM facilities—one on Chicago's West Side and the other in Harvey (both low-income areas). Furthermore, **BANK** has strongly lobbied Cash Station, the ATM company for the state of Illinois, to locate ATMs in low- and moderate-income communities.

It is important that the bank's facilities be geographically convenient to all residents of the bank's local community area.

Community Reinvestment Act Notice

The Federal Community Reinvestment Act (CRA) requires the **REGULATOR** to evaluate our performance in helping to meet the credit needs of this community, and to take this evaluation into account when the **REGULATOR** decides on certain applications submitted to us. Your involvement is encouraged.

You should know that:

- You may obtain our current CRA statement for this community in this office.
- You may send signed, written comments about our CRA statement or our performance in helping to meet community needs to **BANK** at **ADDRESS**. Your letter, together with any response by us, may be made public.
- You may look at a file of all signed, written comments received by us within the past two years, any response we have made to the comments and all CRA Statements in effect during the past two years at our office located at Chicago, Illinois.
- You may ask to look at any comments received by the **BANK**.
- You also may request from the **REGULATOR** an announcement of applications covered by the CRA filed with the **REGULATOR**.

Each CRA statement must include those components required by federal regulators.



4

YOUR COMMUNITY

AFFAIRS OFFICER:

A CHAMPION FOR CRA

A community affairs officer is an essential staff position for any financial institution interested in improving its community investment performance. While regulators do not require an institution to have a community affairs officer, the Joint CRA Policy Statement does encourage institutions to assign a senior officer to coordinate and monitor the CRA process. The primary responsibilities of this position fall into three broad areas:

1. to design and implement a community reinvestment strategy suited to the financial institution and the community it serves;
2. to act as the financial institution's liaison with its local community; and
3. to ensure accurate and complete reporting of the institution's reinvestment activities.

To be truly effective, the community affairs officer must have lending responsibility and authority. This authority allows the CAO to assume line responsibility and actually be a part of the implementation team. Lending authority also enhances the position/person in the community's eyes and makes the person that much more valuable to the financial institution. In larger institutions, the officer may also require technical and clerical support staff to carry out his/her work. The following job description was prepared as an example of the types of detailed job duties of this position.

Community Affairs Officer Job Description

Basic Function

The Community Affairs Officer (CAO) is responsible for maintaining a financial institution's relationship with its local community, especially low- and moderate-income and minority neighborhoods; designing and implementing the Bank's community reinvestment program/strategy; acting as a lending officer within the real estate division; marketing and promoting the community reinvestment program; and coordinating and preparing reports regarding the Bank's community reinvestment activities and performance.

The CAO should report to the Board of Directors at least semiannually.

Specific Responsibilities

A. Reinvestment Program Design and Implementation

Secure the support and cooperation of community-based and institutional partners in the reinvestment program.

Develop a program design that meets the community's need for credit as well as the requirements of the institution and all community partners assisting in the effort.

Act as the institution's point person in the implementation of the program. Ensure that appropriate Bank personnel at all levels are well informed about the program and how it is designed to operate. Assume responsibility for resolving any problems that may arise as the program becomes operational.

Monitor lending activity under the program and make modifications, as necessary, to improve performance.

B. Lending Responsibility

Review applications for residential and commercial mortgages. Collect appropriate background documentation. Review loan package. Recommend appropriate disposition of applications.

C. Community Liaison

Develop and implement a regular calling program for appropriate bank/thrift officers with local development corporations, community organizations, foundations and government agencies dedicated to community development and revitalization. These meetings should be designed to inform the institution of changing credit needs and to assess its performance in meeting community credit needs.

Schedule presentations by officers to representatives of the community targeted by the institution through its reinvestment program/strategy. These presentations should describe the reinvestment program and how local residents, businesses, and community organizations can avail themselves of it. Presentations should be made to local churches, financial institutions, schools and universities, block clubs, community coalitions, etc.

Maintain a close working relationship with all partners of the institution's reinvestment program/strategy.

D. Public Relations

Work with the marketing department to market the community reinvestment program and communicate program results to various publics (board, officers, community residents and business people, regulators, political leaders and other lenders).

In order to do this, the CAO must:

- approve promotional materials (i.e. brochures, flyers, slide shows) developed by the marketing division to market the program;
- develop and maintain good working relationships with community organizations, political leaders, regulators, civil servants and other lenders;
- seek out opportunities to publicize positive developments in the program and work with the marketing division to stage announcements; and
- work within existing community networks.

E. Community Reinvestment Reports

Develop a CRA plan to be implemented by the board, officers and line staff. Monitor the plan's implementation.

Coordinate the preparation of reports regarding the institution's community reinvestment activities/performance.

Qualifications

Qualified candidates must have:

- an undergraduate degree;
- three to five years experience as a lending officer with progressively increasing responsibilities or comparable experience with a community development corporation;
- strong written and oral communications skills;
- problem-solving and analytical skills; and
- strong drive and initiative.

Ideal candidates would also have:

- knowledge of local communities, especially low- and moderate-income and minority communities, and their community development activities; and
- familiarity with key local development corporations and community-based organizations.

Minority candidates are encouraged to apply.

Salary

Commensurate with experience and qualifications.



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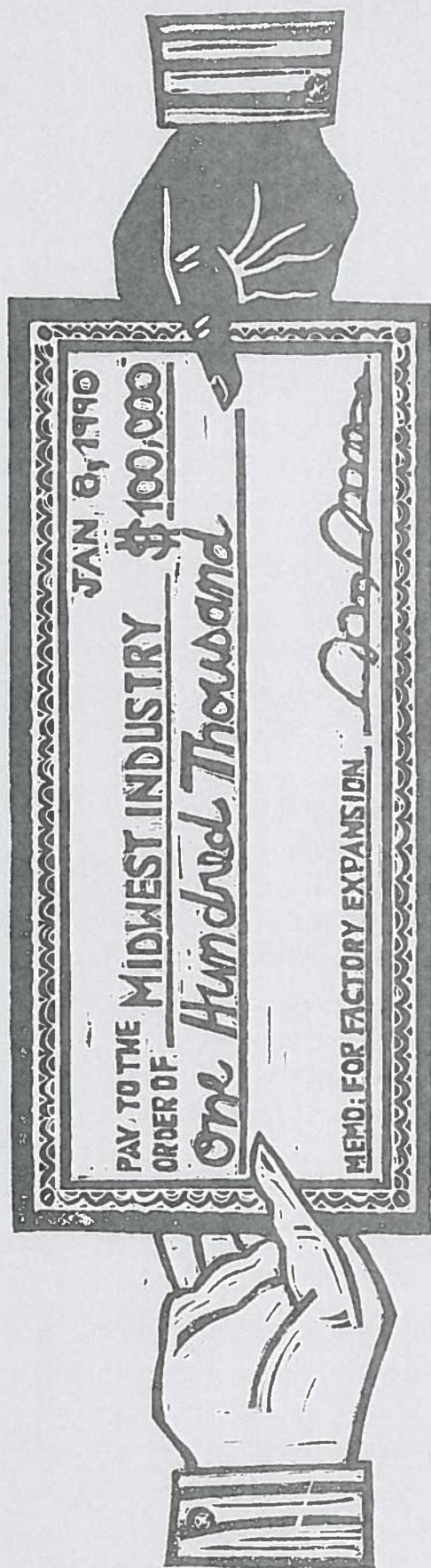
DELIVERING ON YOUR CRA COMMITMENTS

Once a financial institution has developed an expanded CRA statement, hired a community affairs officer and selected a community reinvestment strategy, how does it ensure that everything it has proposed to do is actually undertaken and completed? The following CRA Management Plan and Process Report was developed to assist institutions in monitoring progress on the CRA objectives and tasks it has set for itself.

The report is formatted as a management-by-objectives (MBO) chart. This chart includes a set of stated objectives, the major tasks to achieve the objectives, who is responsible for each task and a target completion date. Bank/thrift personnel should be required to provide a status report on their tasks on a monthly or

bimonthly basis to the Community Affairs Officer (CAO). While the CAO may be responsible for ensuring that each objective is accomplished, individual tasks under the objectives will probably be assigned to other staff within the institution. For example, the CAO should ensure that the bank or thrift regularly contacts community organizations and public agencies regarding community credit needs. However, the CAO should not be the only employee making these contacts. Rather real estate and business loan officers should regularly participate in or conduct these meetings.

The CAO should review the report to spot delays and ensure that steps are taken to remove any obstacles to achieving each objective. The CAO should report regularly to



the institution's chief executive officer and to the Board of Directors at least twice a year.

The objectives and tasks that have been set forth are generic in the sense that many institutions will face similar issues and concerns. The sequence of objectives and tasks may vary by institution but, regardless of order, many of the activities described here will be carried out simultaneously. Each financial institution will face some circumstances or situations unique to it and its community. In these instances, the institution should develop objectives and tasks to address these situations. Moreover, the objectives and tasks proposed in this draft must be revised once an institution has made substantial progress. As laid out, the MBO plan may help lenders reach a basic threshold of performance with respect to CRA. Revisions, however, will be necessary for the institution to demonstrate how it will maintain and monitor its activities.

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C R A M A N A G E M E N T P L A N A N D P R O C E S S

Objective/Major Tasks	Persons Responsible	Completion Date	Status
A. Ascertain the credit needs of the community served, particularly low- and moderate-income areas within the community.			
1. Obtain and analyze population and housing data on the community.			
2. Obtain and analyze HMDA data on the community.			
3. Identify local development organizations, community organizations, foundations, public agencies and individuals to be contacted regarding community credit needs.			
4. Develop a schedule for regularly calling on these people/agencies.			
5. Assign responsibility for meeting with each targeted person/organization to specific personnel.			
6. Conduct meetings.			
B. Develop credit products, policies and procedures to meet the needs of low- and moderate-income communities.			
1. Review the institution's HMDA data to determine whether loans are well distributed throughout the CRA community.			
2. Review loan policies and procedures to be certain that credit criteria do not have the effect of discriminating against low- and			

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C R A M A N A G E M E N T P L A N A N D P R O C E S S

Objective/Major Tasks	Persons Responsible	Completion Date	Status
moderate-income communities and to ensure their credit needs are being met. (In particular, focus on such things as loan-to-value ratio; debt-to-income ratio; and bank policy toward nonconforming properties.) 3. Recommend changes to policies and procedures. 4. Inform Board of changes. 5. Implement any changes to current policies. 6. Incorporate information on new policies and procedures in marketing materials.			
C. Design and implement a community reinvestment program. 1. Identify a community reinvestment concept that is attractive to and feasible for the institution to implement. 2. Secure the support and cooperation of community-based and institutional/corporate partners in the reinvestment program. 3. Develop a program design that meets the community's need for credit as well as the requirements of the institution and all partners assisting in the effort. 4. Present program to Board for review and approval. 5. Ensure that appropriate personnel at all levels are well informed about the program and how it is designed to operate.			

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C R A M A N A G E M E N T P L A N A N D P R O C E S S

Objective/Major Tasks	Persons Responsible	Completion Date	Status
6. Develop promotional materials in conjunction with community partners to publicize program.			
7. Revise CRA statement to include targeted reinvestment initiative and seek board approval of revised statement.			
8. Resolve any problems that may arise as the program becomes operational.			
9. Monitor lending activity under the program and make modifications, as necessary, to improve performance.			
10. Seek out opportunities to publicize positive developments or milestones in the program.			
11. Maintain a close working relationship with all partners of the reinvestment program.			
D. Revise and broadly distribute the CRA statement.			
1. Draft an expanded CRA statement.			
2. Ask staff and federal examiners to review the expanded draft statement.			
3. Revise expanded statement per internal and external comments.			
4. Print copies of the CRA statement.			
5. Distribute copies of the statement to all personnel.			

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C R A M A N A G E M E N T P L A N A N D P R O C E S S

Objective/Major Tasks	Persons Responsible	Completion Date	Status
6. Place copies of the statement in all of the institution's display racks. 7. On an annual basis, have the Board review and modify the CRA statement.			
E. Hire a Community Affairs Officer (CAO). 1. Develop a job description for a CAO. 2. Advertise the position in a major daily newspaper, via minority recruiting organizations, in appropriate community development newsletters and by word-of-mouth. 3. Screen and interview candidates. 4. Hire a qualified person for the position.			
F. Design and implement a process for improved CRA performance by the institution and better monitoring of that performance. 1. Design a CRA management plan to be implemented by the Board, officers and line staff. 2. Inform Board of the plan. 3. Train the Board, officers and line staff as to the spirit and letter of the CRA and as to the new CRA plan. 4. Review and revise past CRA reporting practices and docu-			

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CRA MANAGEMENT PLAN AND PROCESS

Objective/Major Tasks	Persons Responsible	Completion Date	Status
ments to ensure that CRA reports actually capture all of the institution's activities under CRA.			
5. Review and revise the Bank's marketing materials to include information on loan products that may be of particular interest to low-and moderate-income communities, especially government guaranteed loan programs.			
6. Report at least semi-annually to the Board regarding CRA performance.			
7. Coordinate the preparation of reports regarding the institution's community reinvestment activities/ performance.			
8. Monitor the plan's implementation in terms of increased loan volume in low- and moderate-income and minority communities and better relationships with community-based organizations.			



APPENDIX **A**

COMMUNITY REINVESTMENT ACT

*12 USC §2901; Title VII of Pub.L. 95-128, 91 Stat. 1147
(October 12, 1977; revised August 9, 1989)*

Contents

Section 801—Short title

Section 802—Congressional findings and statement of purpose

Section 803—Definitions

Section 804—Financial institutions; evaluation

Section 805—Report to Congress

Section 806—Regulations

Section 807—Written Evaluations

Section 801—Short Title

This title may be cited as the "Community Reinvestment Act of 1977".

Section 802— Congressional Findings and Statement of Purpose

(a) The Congress finds that—

- (1) regulated financial institutions are required by law to demonstrate that their deposit facilities serve the con-

venience and needs of the communities in which they are chartered to do business;

- (2) the convenience and needs of communities include the need for credit services as well as deposit services; and
 - (3) regulated financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.
- (b) It is the purpose of this title to require each appropriate Federal financial supervisory agency to use its authority when examining financial institutions, to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions.

Section 803— Definitions

For the purposes of this title—

- (1) the term "appropriate Federal financial supervisory agency" means—
 - (A) the Comptroller of the Currency with respect to national banks;

- (B) the Board of Governors of the Federal Reserve System with respect to State chartered banks which are members of the Federal Reserve System and bank holding companies;
 - (C) the Federal Deposit Insurance Corporation with respect to the State chartered banks and savings banks which are not members of the Federal Reserve System and the deposits of which are insured by the Corporation; and
 - (D) the Federal Home Loan Bank Board with respect to institutions the deposits of which are insured by the Federal Savings and Loan Insurance Corporation and to savings and loan holding companies;
- (2) the term "regulated financial institution" means an insured bank as defined in section 3 of the Federal Deposit Insurance Act or an insured institution as defined in section 401 of the National Housing Act; and
- (3) the term "application for a deposit facility" means an application to the appropriate Federal financial supervisory agency otherwise required under Federal law or regulations thereunder for—
- (A) a charter for a national bank or Federal savings and loan association;
 - (B) deposit insurance in connection with a newly chartered State bank, savings bank, savings and loan association or similar institution;
 - (C) the establishment of a domestic branch or other facility with the ability to accept deposits of a regulated financial institution;
 - (D) the relocation of the home office or a branch office of a regulated financial institution;
 - (E) the merger or consolidation with, or the acquisition of the assets, or the assumption of the liabilities of a regulated financial institution requiring approval under section 18(c) of the Federal Deposit Insurance Act or under regulations issued

under the authority of title IV of the National Housing Act; or

- (F) the acquisition of shares in, or the assets of, a regulated financial institution requiring approval under section 3 of the Bank Holding Company Act of 1956 or section 408(e) of the National Housing Act.
- (4) A financial institution whose business predominately consists of serving the needs of military personnel who are not located within a defined geographic area may define its "entire community" to include its entire deposit customer base without regard to geographic proximity.

Section 804—Financial Institutions; Evaluation

In connection with its examination of a financial institution, the appropriate Federal financial supervisory agency shall—

- (1) assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution; and
- (2) take such record into account in its evaluation of an application for a deposit facility by such institution.

Section 805—Report to Congress

Each appropriate Federal financial supervisory agency shall include in its annual report to the Congress a section outlining the actions it has taken to carry out its responsibilities under this title.

Section 806—Regulations

Regulations to carry out the purposes of this title shall be published by each appropriate Federal financial supervisory agency, and shall take effect no later than 390 days after the date of enactment of this title.

Section 807— Written Evaluations

Such ratings shall be disclosed to the public on and after July 1, 1990.

(a) Required-

- (1) In General-Upon the conclusion of each examination of an insured depository institution under section 804, the appropriate Federal depository institutions regulatory agency shall prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods.
- (2) Public and Confidential Sections-Each written evaluation required under paragraph (1) shall have a public section and a confidential section.

(b) Public Section of Report-

- (1) Findings and Conclusions-The public section of the written evaluation shall-
 - (A) state the appropriate Federal depository institutions regulatory agency's conclusions for each assessment factor identified in the regulations prescribed by the Federal depository institutions regulatory agencies to implement this Act;
 - (B) discuss the facts supporting such conclusions; and
 - (C) contain the institution's rating and a statement describing the basis for the rating.
- (2) Assigned Rating-The institution's rating referred to in paragraph (1)(C) shall be 1 of the following:
 - (A) "Outstanding record of meeting community credit needs"
 - (B) "Satisfactory record of meeting community credit needs"
 - (C) "Needs to improve record of meeting community credit needs"
 - (D) "Substantial noncompliance in meeting community credit needs"

(c) Confidential Section of Report-

- (1) Privacy of Named Individuals-The confidential section of the written evaluation shall contain all references that identify any customer of the institution, any employee or officer of the institution, or any person or organization that has provided information in confidence to a Federal or State depository institutions regulatory agency.
- (2) Topics not Suitable for Disclosure-The confidential section shall also contain any statements obtained or made by the appropriate Federal depository institutions regulatory agency in the course of an examination which, in the judgment of the agency, are too sensitive or speculative in nature to disclose to the institution or the public.
- (3) Disclosure to Depository Institution-The confidential section may be disclosed, in whole or part, to the institution, if the appropriate Federal depository institutions regulatory agency determines that such disclosure will promote the objectives of this Act. However, disclosure under this paragraph shall not identify a person or organization that has provided information in confidence to a Federal or State depository institutions regulatory agency.



APPENDIX **B**

REGULATION BB

COMMUNITY REINVESTMENT

12 CFR §228; effective November 6, 1978

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and under the provisions of the United States Code authorizing the Board to conduct examinations of state-chartered banks that are members of the Federal Reserve System (12 USC §325), to conduct examinations of bank holding companies and their subsidiaries (12 USC §1844), and to consider applications for domestic branches by state member banks (12 USC §321), for federal deposit insurance in connection with applications for membership in the Federal Reserve System by state banks (12 USC §321, 1814, 1816), for merger in which the resulting bank would be a state member bank (12 USC §1828), and for formation of, acquisitions of banks, by, and mergers of, bank holding companies (12 USC §1842).

Section 228.2—Purposes

The purposes of this regulation are to encourage state member banks to help meet the credit needs of their local community or communities; to provide guidance to state member banks as to how the Board will assess the records of state member banks in satisfying their continuing and affirmative obligations to help meet the credit needs of their local communities including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those banks; and to provide for taking into account those records in connection with certain applications.

Section 228.1— Authority

The Board of Governors of the Federal Reserve System issues this part* to implement the Community Reinvestment Act (12 USC §2901 et seq.). The regulations comprising this part are issued under the authority of the Community Reinvestment Act

* The words "this part," as used herein, mean Regulation BB (Code of Federal Regulations, title 12, chapter II, part 228).

Section 228.3— Delineation of Community

- (a) Each state member bank shall prepare, and at least annually review, a delineation of the local community or communities that comprise its entire community, without including low- and moderate-income neighborhoods. Maps shall be used to portray community delineations. The reasonableness of the delineations will be reviewed by Federal Reserve System examiners.
- (b) Except as provided in paragraph (c) of this section, a local community consists of the contiguous areas surrounding each office or group of offices, including any low- and moderate-income neighborhoods in those areas. More than one office of a state member bank may be included in the same local community. Unless the Board determines otherwise, a community delineation need not take account of an off-premises electronic facility that receives deposits for more than one depository institution. In preparing its delineation, a bank may use any one of the three bases set forth below.

- (1) Existing boundaries such as those of standard metropolitan statistical areas (SMSAs) or counties in which the bank's office or offices are located may be used to delineate a local community. Where appropriate, portions of adjacent areas should be included. The bank may make adjustments in case of areas divided by state borders or significant geographic barriers, or areas that are extremely large or of unusual configuration. In addition, a small bank may delineate those portions of SMSAs or counties it reasonably may be expected to serve.
- (2) A bank may use its effective lending territory, which is defined as that local area or areas around each office or group of offices where it makes a substantial portion of its loans and all other areas equidistant from its

offices as those areas. Adjustments such as those indicated in paragraph (b)(1) of this section may be made.

- (3) A bank may use any other reasonably delineated local area that meets the purposes of the Community Reinvestment Act (CRA) and does not exclude low- and moderate-income neighborhoods.
- (c) A state member bank whose business predominantly consists of serving persons who are active duty or retired military personnel or their dependents and who are located outside of its local community or communities, may delineate a "military community" for those customers, in addition to its local community or communities. Provisions of this part concerning local communities shall also apply to military communities, except that military communities shall be delineated by a written description rather than a map.

Section 228.4— Community Reinvestment Act Statement

- (a) Within 90 days after the effective date of this part, the board of directors of each state member bank shall adopt a Community Reinvestment Act (CRA) statement for each delineated local community.
- (b) Each CRA statement shall include at least the following:
 - (1) The delineation of the local community;
 - (2) A list of specific types of credit within certain categories, such as residential loans for one- to four-dwelling units, residential loans for five-dwelling units and over, housing rehabilitation loans, home improvement loans, small business loans, farm loans, community development loans, commercial loans, and consumer loans, that the

bank is prepared to extend within the local community; and

- (3) A copy of the COMMUNITY REINVESTMENT ACT NOTICE provided for in section 228.6.
- (c) Each state member bank is encouraged to include the following in each CRA statement:
 - (1) A description of how its current efforts, including special credit-related programs, help to meet community credit needs;
 - (2) A periodic report regarding its record of helping to meet community credit needs; and
 - (3) A description of its efforts to ascertain the credit needs of its community, including efforts to communicate with members of its community regarding credit services.
- (d) Each state member bank's board of directors shall review each CRA statement at least annually and shall act upon any material change made in the interim at its first regular meeting after the change. Such actions shall be noted in its minutes.
- (e) Each current CRA statement shall be readily available for public inspection:
 - (1) At the head office of the bank; and
 - (2) At each office of the bank in the local community delineated in the statement, except off-premises electronic deposit facilities.
- (f) Copies of each current CRA statement shall be provided to the public upon request. A state member bank may charge a fee not to exceed the cost of reproduction.

Section 228.5—Files of Public Comments and Recent CRA Statements

- (a) Each state member bank shall maintain files that are readily available for public inspection consisting of:

- (1) Any signed, written comments received from the public within the past two years that specifically relate to any CRA statement or to the bank's performance in helping to meet the credit needs of its community or communities;
- (2) Any responses to the comments that the bank wishes to make; and
- (3) Any CRA statements in effect during the past two years.
- (b) These files shall not contain any comments or responses that reflect adversely upon the good name or reputation of any person other than the bank, or publication of which would violate specific provisions of law.
- (c) These files shall be maintained by each state member bank as follows:
 - (1) All materials at the head office; and
 - (2) Materials relating to each local community, at a designated office in that community.

Section 228.6—Public Notice

Within 90 days after the effective date of this part, each state member bank shall provide, in the public lobby of each of its offices other than off-premises electronic deposit facilities the public notice set forth below. Bracketed material shall be used only by banks having more than one local community. The last item in this notice shall be included only if the bank is a subsidiary of a holding company that is not prevented by statute from acquiring additional banks.

COMMUNITY REINVESTMENT ACT NOTICE

The Federal Community Reinvestment Act (CRA) requires the Federal Reserve Board to evaluate our performance in helping to meet the credit needs of this community, and to take this evaluation into account when the Board decides on certain applications submitted by us. Your involvement is encouraged.

You should know that:

- You may obtain our current CRA statement for this community in this office. [Current CRA statements for other communities served by us are available at our head office, located (address).]
- You may send signed, written comments about our CRA statement[s] or our performance in helping to meet community credit needs to (title and address of state member bank official) and to Community Reinvestment Officer, Federal Reserve Bank of _____ (address). Your letter, together with any response by us, may be made public.
- You may look at a file of all signed, written comments received by us within the past two years, any responses we have made to the comments, and all CRA statements in effect during the past two years at our office located at (address). [You also may look at the file about this community at (name and address of designated office).]
- You may ask to look at any comments received by the Federal Reserve Bank of _____.
- You also may request from the Federal Reserve Bank of _____ an announcement of applications covered by the CRA filed with the Federal Reserve System.
- We are a subsidiary of (name of holding company), a bank holding company. Applications filed by bank holding companies that are covered by the CRA are included in the Federal Reserve announcement of applications referred to in the previous paragraph.

Section 228.7— Assessing the Record of Performance

In connection with its examination of a state member bank, the Board shall assess the record of performance of the bank in helping to meet the credit needs of its entire community, including low- and moderate-income

neighborhoods, consistent with safe and sound operation of the bank. The Board will review the bank's CRA statement(s) and any signed, written comments retained by the state member bank or the Federal Reserve Bank. In addition, the Board will consider the following factors in assessing a bank's record of performance:

- (a) Activities conducted by the state member bank to ascertain the credit needs of its community, including the extent of the bank's efforts to communicate with members of its community regarding the credit services being provided by the bank;
- (b) The extent of the state member bank's marketing and special credit-related programs to make members of the community aware of the credit services offered by the bank;
- (c) The extent of participation by the state member bank's board of directors in formulating the bank's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act;
- (d) Any practices intended to discourage applications for types of credit set forth in the state member bank's CRA statement(s);
- (e) The geographic distribution of the state member bank's credit extensions, credit applications, and credit denials;
- (f) Evidence of prohibited discriminatory or other illegal credit practices;
- (g) The state member bank's record of opening and closing offices and providing services at offices;
- (h) The state member bank's participation, including investments, in local community development and redevelopment projects or programs;
- (i) The state member bank's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community;
- (j) The state member bank's participation

in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses, or small farms;

- (k) The state member bank's ability to meet various community credit needs based on its financial condition and size, and legal impediments, local economic conditions, and other factors; and
- (l) Other factors that, in the Board's judgment, reasonably bear upon the extent to which a state member bank is helping to meet the credit needs of its entire community.

Section 228.8— Effect on Applications

(a) In considering any application—

- (1) For membership in the Federal Reserve System where membership would confer federal deposit insurance on a bank,
- (2) By a state member bank for the establishment of a domestic branch or other facility that would be authorized to receive deposits,
- (3) By a state member bank for the relocation of a domestic branch,
- (4) For merger, consolidation, acquisition of assets, or assumption of liabilities if the acquiring, assuming, or resulting bank is to be a state member bank,
- (5) To become a bank holding company, and
- (6) By a bank holding company to acquire ownership or control of shares or assets of a bank, or to merge or consolidate with any other bank holding company, the Board will take into account, among other factors it considers, the record of performance in meeting the credit needs of its entire community of each applicant bank, each subsidiary bank of an applicant bank holding company, and each proposed subsidiary bank of an applicant under section 3 of the Bank Holding

Company Act (12 USC 1842) that has an officer, director, employee, or significant stockholder associated with the applicant. Those records of performance may be the basis for denying the application.

- (b) In the case of each application for membership that would confer federal deposit insurance, each application by a state member bank, and each application by a bank holding company with a state bank subsidiary, the Board will consider any views expressed by the respective state bank supervisors as to whether the state-chartered banks involved have been helping to meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those banks.
- (c) At the request of an applicant, the Board will include in its consideration of an application the record of performance of nonbanking subsidiaries of bank holding companies in helping to meet the credit needs of the communities served by affiliated applicant banks or by subsidiary and proposed subsidiary banks of applicants under section 3 of the Bank Holding Company Act (12 USC 1842).
- (d) At the time an application for membership that would confer federal deposit insurance is made, the proposed state member bank shall submit to the Board a proposed CRA statement conforming to the requirements of section 228.4.



APPENDIX **C**

JOINT POLICY STATEMENT ON CRA

*Statement of the Federal Financial Supervisory Agencies Regarding
the Community Reinvestment Act (March 19, 1989)*

Introduction

In light of the significant developments that have occurred in the financial institutions industry since enactment of the Community Reinvestment Act of 1977 ("CRA"), the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Federal Home Loan Bank Board ("the Agencies") have revised the 1980 Community Reinvestment Act Information Statement. The revisions in this Joint Statement are intended to take advantage of the experience the Agencies, financial institutions, and community members have gained over the years in developing approaches to ensure that the requirements and purposes of the CRA are met. This revised Statement provides guidance regarding the types of policies and procedures that the Agencies believe financial institutions should have in place in order to fulfill their responsibilities under the CRA on an ongoing basis and the procedures the Agencies will use during the application process to review an institution's CRA compliance and performance.

Under the CRA, the Agencies are required, when considering certain applications involving a federally insured financial institution ("financial institution"), to take into account the institution's record of helping to meet the credit needs of its entire commu-

nity, including low- and moderate-income neighborhoods. Given this responsibility, the Agencies want to assure that potential applicants, and those who may wish to comment on an applicant's CRA record, know what is expected of a financial institution under the CRA and of participants during the application process.

The Agencies believe the clarification provided in this Statement will help applicants and others who wish to comment on applications to provide promptly the information necessary to permit the Agencies to address CRA issues in a timely fashion in accordance with the schedules required under relevant federal statutes and regulations. The Agencies wish to emphasize their belief that the goals of the CRA are best accomplished when financial institutions make meeting their responsibilities under the statute a part of their routine management and operational structure. Thus, the Agencies expect applicants to have addressed their responsibilities under the CRA well before they submit an application.

Background

The CRA was enacted in 1977 against a backdrop of concern over unfair treatment of prospective borrowers by financial institutions and over unwarranted geographic differences in their lending patterns. In the

CRA, Congress reaffirmed that every financial institution has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods.

The CRA states that its purpose is to require each federal financial supervisory agency to use its authority when conducting examinations to encourage the financial institutions it supervises to help meet those needs. To this end, the Community Reinvestment Act provides:

In connection with its examination of a financial institution, the appropriate...agency shall—

- (1) assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of [the] institution; and
- (2) take such record into account in its evaluation of an application...by such institution. 12 U.S.C. § 2903.

Simply stated, the CRA and the implementing regulations place upon all financial institutions, whether wholesale or retail, urban or rural, an affirmative responsibility to treat the credit needs of low- and moderate-income members of their communities as they would any other market for services that the institution has decided to serve. As with any other targeted market, financial institutions are expected to ascertain credit needs and demonstrate their response to those needs.

The Agencies believe that the CRA intends financial institutions to help meet the credit needs of their communities in a positive, ongoing way that recognizes the institution's assessment of its relevant market and is consistent with the safe and sound operation of the institution. This responsibility under the CRA may be met in a variety of ways, including lending for business, agriculture, education, consumer, home purchase, and home improvement purposes, and to finance state and local governments. The CRA was not intended to limit an institution's discretion to develop

the types of products and services that it believes are best suited to its expertise and business objectives and to the needs of its particular community, as long as the institution's program is consistent with the objectives of the CRA. Nor is it the purpose of this Statement to establish specific lending requirements or programs for financial institutions subject to the CRA.

This Statement provides guidance, in part, by describing the types of activities that the Agencies have found fulfill a financial institution's responsibilities under the CRA. Because the needs of communities vary, the Agencies recognize that the examples outlined in this Statement will not be appropriate for every institution or for every community.

Guidelines for Developing an Effective CRA Process

Because the credit needs of individual communities differ, the Agencies will consider the process by which a financial institution defines the community it serves, determines its credit needs, including its low- and moderate-income areas, and takes steps to help meet those needs through appropriate and prudent lending. The Agencies believe that appropriate consideration should be given to an institution that makes ongoing efforts to ascertain the needs of its entire community, develops products and services that are responsive to those needs, and markets those products and services throughout the community. An active program of management involvement, policy oversight, and regular review is most likely to assure that the products and services the institution chooses to offer will meet community credit needs, be adjusted when those needs change, and be available to all segments of the community.

The experience of the Agencies indicates that an effective CRA process must include methods to ascertain community needs on an ongoing basis through outreach efforts to local governments, businesses, and community members and organizations. This ascertainment effort should include a system that both facilitates dialogue with these indi-

viduals and groups and enables them to communicate their concerns to an officer of the financial institution with CRA responsibilities. To be effective, the process must include methods to incorporate findings regarding community credit needs into the development of products and services that the institution decides to offer to help meet these needs.

The CRA plan should include marketing and advertising programs for lending products and services that are responsive to the needs of the community and that will inform and stimulate awareness of those products and services throughout the community, including low- and moderate-income areas. The plan should also include periodic analysis of the disposition of loan applications to ensure that potential borrowers are treated in a fair and non-discriminatory manner.

The duty to coordinate and monitor the CRA process should be assigned to a senior officer or a committee charged with the responsibility to report periodically to the board of directors about the institution's CRA efforts, performance and areas for improvement, where appropriate. An employee training program should be established. This program should contain information about those policies of the institution designed to help meet community credit needs, including the needs of low- and moderate-income areas and small businesses. Procedures should be implemented to assure that files are maintained, as required by agency regulations, for purposes of receiving public comments and for reviewing and responding to these comments.

Regardless of how an institution organizes itself to implement such a plan, seeing that the institution has taken the steps necessary to help meet its community's credit needs is the responsibility of the entire organization, beginning with its board of directors and continuing through its line management.

Once a financial institution has established an effective CRA process, it must assure that its CRA statement accurately reflects the types of lending and other services that it will offer to the community. This statement must be reviewed at least annually to ensure its accuracy. The services that the institu-

tion chooses to offer should be clearly articulated, reasonably related to community needs, and distributed in a fair and nondiscriminatory manner in keeping with an institution's general approach to its business. A financial institution need not offer every financial service in order to meet its CRA responsibilities; however, the Agencies expect that institutions will offer the types of credit listed in their CRA statement throughout their delineated communities.

Specific Elements of an Effective CRA Process

Within the general framework discussed above, institutions have substantial leeway in developing specific policies and programs to meet their CRA responsibilities. The actual steps taken by an institution will of necessity depend upon a number of factors, including the size of the institution, its business strategy and objectives, and the size, nature and needs of the community involved. For example, the specific steps taken by a small rural institution to meet its CRA responsibilities may be quite different from those required of a major metropolitan institution.

Based upon the experience of the Agencies, institutions with the most effective programs for meeting their CRA responsibilities and for assuring that their services reach low- and moderate-income segments of the community will have taken many of the following steps:

- implemented policies, including the use of more flexible lending criteria, consistent with safe and sound practices, to provide the types of loans and services described in the institution's CRA statement on a more widespread basis;
- increased efforts to make loans to help meet identified credit needs within the community, such as those for home mortgages, home improvement and small business. This may include participation in various government-insured lending programs, such as FHA-insured or VA-guaranteed mortgage loans and SBA loans, and participation in other types of lending

programs, such as high-loan-to-value-ratio conventional mortgage loans with private mortgage insurance;

- implemented and advertised the availability of services of benefit to low- and moderate-income persons, such as cashing government checks or offering low-cost checking accounts;
- created and implemented advertising and marketing efforts through, for example, newspapers, radio, television and brochures designed to inform low- and moderate-income groups (in languages other than English, where appropriate) of available loan and deposit services; in the case of members of the Federal Home Loan Bank System, participated actively in the FHLBB Community Investment Fund program.

Finally, to enhance CRA performance, some financial institutions have chosen to establish special or pilot lending programs earmarked for low- and moderate-income neighborhoods, consistent with safe and sound lending practices. While the Agencies support such activity, the scope of any such program is properly addressed by the financial institution itself, taking into account its own expertise and financial capabilities. This is particularly true of any targeted goals established for such a program, which may represent a statement of the institutions' expectations of services to be provided based upon actual loan demand, market conditions, and other similar factors. The Agencies will continue to consider favorably financial-institution leadership in concerted efforts to improve low- and moderate-income areas in the community and participation by financial institutions in public and private partnerships to promote economic and community development efforts.

The examples described above illustrate specific steps that have been taken, in particular by larger financial organizations operating in urban communities, to help meet the credit needs of all segments of those communities. Smaller financial organizations operating in primarily rural communities may nonetheless find some of these examples helpful in designing CRA policies that would meet the needs of their communities.

Expanded CRA Statement

Financial institutions are currently required by agency regulations to prepare a CRA statement describing the community served by the institution and listing the types of credit offered by the institution to the community and encouraged to describe their CRA efforts in this statement. This statement must be reviewed by the board of directors of the institution at least on an annual basis. As noted above, an effective CRA process should also include management review and oversight of the institution's policies and performance on a regular basis.

The Agencies believe that it would be especially useful for a financial institution, in connection with the preparation and periodic review of its CRA statement, to expand the CRA statement to include a description of the institution's CRA performance. The CRA regulations of the Agencies currently encourage financial institutions to incorporate this type of description in their CRA statements. This description includes the institution's efforts to ascertain the credit needs of its community and to communicate with members of the community regarding those needs, and the steps taken by the institution, including through special credit-related programs, to help meet the community's credit needs. The CRA statement also provides a readily available vehicle for financial institutions to describe the marketing and advertising programs used by the institution to inform the community of the institution's services, and any other steps, such as those outlined in this Statement, that have been taken by the institution to implement its CRA policies. The institution may also find it useful to include a summary of the results of its internal CRA review and a summary of the documentation collected by the institution regarding its CRA performance.

An expanded CRA statement along the lines suggested in existing agency regulations can be a particularly effective part of the institution's outreach efforts to the community. This type of statement would also focus, on an ongoing basis, the attention of

both the institution's management and the public on the financial institution's efforts to meet its responsibilities under the CRA and on any areas identified by the institution for improvement.

The Agencies also believe that an expanded CRA statement would present a suitable framework outside the applications process for public comment regarding an institution's CRA record. Under existing rules, public comments received by an institution regarding its CRA performance must be maintained in a public file with the institution's CRA statement. These public comments provide the institution with an opportunity to identify areas of public concern regarding its CRA performance and to consider any steps that the institution may find appropriate to address these concerns. The Agencies may then review these comments and the steps taken by the institution to address the comments during the CRA examination of the institution rather than through the applications process.

The Agencies strongly encourage financial institutions to expand their CRA statement to include a description of the institution's CRA performance in connection with the institution's review of its CRA record. The Federal Reserve Board and the FHLBB also strongly encourage holding companies, as part of the system-wide review and oversight by the holding company of the CRA performance of its subsidiary financial institutions, to ensure that their CRA statements are expanded in this way. The Agencies recognize that the CRA statement would vary in complexity and scope depending on the size, resources, and location of the institution.

Communication in Advance of the Applications Process

Just as financial institutions are expected to communicate with their local communities on an ongoing basis regarding credit needs, community organizations and other members of the public are strongly encouraged to bring comments regarding an institution's CRA performance to the attention of the

institution and the appropriate supervisory agency at the earliest possible time. Interested persons are encouraged not to wait to present their comments through a protest to an application.

Prompt submission of comments regarding an institution's CRA record provides the institution and examiners with a timely opportunity to evaluate the matter and permits the institution to correct any deficiencies—an opportunity that may not be as effectively utilized under the time constraints of the applications process. The CRA regulations of the Agencies establish a comment procedure at the financial institution for this purpose, and the Agencies strongly encourage use of this process. The Agencies expect that financial institutions will investigate promptly all complaints and place a high priority on correcting any deficiencies.

The Agencies will consider any comments submitted to the institution through this comment procedure, as well as any action or response that the institution deems appropriate, in the evaluation of the institution's CRA performance. In this regard, when considering public comments received during the applications process concerning the CRA record of a particular institution, the Agencies will take into account whether the institution has provided to the public an expanded CRA statement that, as discussed above, describes the efforts made by the institution to help meet the credit needs of its community. The Agencies may also consider whether the commenter has submitted comments to the institution in response to the institution's CRA statement outside of the applications process. However, comments will be carefully weighed regardless of their timing, as long as submitted within the periods specified in the rules of the appropriate reviewing Agency.

Role of CRA Examinations

In acting upon applications covered by the CRA, the appropriate reviewing Agency will consider the CRA record of the relevant financial institutions as reflected in examination reports (from the relevant federal or

state supervisory agencies), the information presented by any commenters, the response by the applicant, and the Agency's own analysis.

As indicated earlier, the CRA requires the Agencies to assess the CRA record of institutions under their supervision during the examination process and to take that record into account in evaluating certain applications. Therefore, the CRA record of the institution, as reflected in its examination reports, will be given great weight in the applications process. In some cases, however, the institution's CRA record as reflected in the examination report may need to be supplemented.

The CRA requires the Agencies to consider the institution's entire CRA record as an integral component of the analysis of the convenience and needs of the community that must be conducted when processing certain types of applications under federal statutes governing financial institutions. The documentation of that record must be sufficient to support the conclusions of the reviewing Agency. A favorable CRA examination from a supervisory agency is an important, and often controlling, factor in the consideration of an institution's CRA record. It is not conclusive evidence, however, in the face of significant and supported allegations from a commenter. This is especially the case when the examination is not recent or the particular issue raised in the application proceeding was not addressed in the examination. In these instances, applicants should submit sufficient data upon which the reviewing Agency may base a decision regarding the institution's record of serving the convenience and needs of its community, and should also respond to specific substantive issues raised by the commenters or the reviewing Agency.

Documentation of CRA Performance

The agencies expect financial institutions to maintain reasonable documentation of the activities, such as those outlined in this Statement, that have been undertaken by the institution to implement the

institution's CRA policies. The appropriate scope and detail of this documentation must be determined by each financial institution and should accurately reflect the institution's CRA policies and performance.

If a substantive CRA issue is raised in the applications process that has not been addressed in the institution's examination reports, the applicant should be prepared to provide the reviewing Agency with information necessary to evaluate the issue. This information may include such items as a description of the CRA policies that have been established, any procedures for ongoing review of these policies, and the types of services offered by the institution to help meet community credit needs. In addition, a description of the resources devoted to such services and the extent to which they are distributed throughout the community has proven to be helpful to the consideration of the issues.

An applicant that has established the type of CRA policies outlined in the applicable CRA regulations and this Statement, and that is able to document that it is performing in accordance with these policies, can expect a favorable finding on the CRA component of the convenience and needs factor under the applicable federal statute governing the transaction. The applicant can also expect timely action on the application within the reviewing Agency's processing guidelines (assuming that financial and other factors are favorable).

Where the examination or application record fails to show that the institution has instituted these types of policies, however, it will be necessary for the reviewing Agency to develop the information required to evaluate the institution's record of helping to meet community credit needs. A poorly documented record may prolong the application process in order for the reviewing Agency to collect the information needed for its decision.

Where the record shows disparities in lending that do not appear to be attributable to safety and soundness considerations or to factors beyond an institution's control, the reviewing Agency will inquire into the institution's efforts to ascertain the community's needs, to communicate with

all areas of its community, and to advertise and market its services throughout its delineated community. The reviewing Agency will also consider all available information to determine whether any policies and practices of the institution may discourage credit applications from, or unlawfully discriminate against, individuals or segments of the community. Where the institution's record under the CRA is found not to be consistent with its obligations under the CRA, the reviewing Agency, after weighing all other factors, may deny the application.

Role of Commitments for Future Action

The Agencies believe that applicants should address their CRA responsibilities and have the necessary policies in place and working well before they file an application. In fulfilling their responsibilities under the CRA, however, financial institutions may decide to initiate programs for future action as a means of assuring a strong CRA record or resolving CRA issues. Commitments for future action are not viewed as part of the CRA record of performance of the financial institution, but may be given weight as an indicator of potential for improvement in the institution's performance. Commitments for such improvement can be used to address specific problems in an otherwise satisfactory record. Commitments may also be appropriate in addressing CRA performance in the context of the acquisition of a troubled financial institution. In some cases, these commitments are important to the conclusion that convenience and needs considerations are consistent with approval of the application. In general, commitments made in the applications process cannot be used to overcome a seriously deficient record of CRA performance. The Agencies may, where appropriate, require financial institutions to take specific actions designed to improve CRA performance by granting conditional approval of an application. In such cases, approval granted by an agency generally becomes effective or final only after confirming that the financial institution has satisfied the appropriate conditions.

In line with the long-standing view of the Agencies that the CRA was not intended to establish a regulatory allocation of credit, the Agencies have neither requested commitments from applicants to make particular types or amounts of loans nor specified the terms or conditions for such loans. The Agencies will review whether the policies that an applicant commits to adopt are reasonably directed at the type of deficiencies, if any, found in the applicant's record, and whether those policies are consistent with the safe and sound operation of the financial institution.

Role of Meetings

While not required under the CRA or the regulations of the Agencies, the Agencies have in many instances found private meetings between an applicant and a protestant to be helpful. Such meetings may clarify the matters at issue, assist the Agencies in determining whether additional information is required, help to plan the direction of the necessary analysis, and, in some instances, resolve differences based on misunderstandings between the parties. These meetings often provide the protestant and applicant an opportunity to submit information to clarify or to support points made in their written submissions.

Although the Agencies believe that ongoing discussion between a financial institution and members of the institution's community is the best way to determine a community's needs, any decision to negotiate or to reach a formal agreement, either during or outside of the applications process, is at the discretion of the parties. The Agencies may, in appropriate cases, facilitate private meetings and may attend them. In doing so, however, the Agencies will maintain a neutral role, and attendance and participation by the parties are voluntary. The purpose of such private meetings is not to provide a forum for the negotiation of a formal agreement among the parties, and the Agencies do not require or enforce such agreements. Moreover, the Agencies do not believe that it is appropriate to suspend processing an application to allow the parties to conclude negotiations or to reach a settlement unless requested by the appli-

cant. The Agencies will act on an application once it has obtained a record sufficient to support a determination in the matter.

Each Agency may, under certain circumstances, order a public meeting, hearing or oral argument. For example, an Agency may find that a public meeting or hearing on an application would be helpful in order to develop a complete record for decision. A public meeting or hearing may be ordered if the written submissions and materials presented at the private meetings do not develop an application record that the reviewing Agency believes is sufficient for decision. In such situations, the decision to call a public meeting or hearing would not be based on the inability of the parties to reconcile their differences in private meetings, but rather on the need for additional information that might be collected through such a process. Each Agency follows its own regulations and procedures with respect to ordering public meetings, hearing or oral arguments.

Extension of Comment Period

Parties desiring to comment on applications, including those wishing to comment on the CRA record of a particular financial institution, should do so promptly and within the time periods specified in the rules of the appropriate reviewing Agency and the relevant public notices. The Agencies believe that this is important in order for the Agencies to carry out their responsibility to process applications within applicable time limits consistent with the public interest. Timely submission of comments also provides an opportunity for response by applicants and ensures time for any necessary analysis by the reviewing Agency.

In accordance with the rules of the Agencies, extensions of time for public comment will be provided only upon a showing of good cause or as otherwise permitted by agency regulations. For example, a brief extension would be appropriate where the application has not been promptly made available for inspection by the parties or where there has been inadequate public notice of the applica-

tion. The Agencies do not believe that extensions of time are appropriate solely when the commenter desires more time to conduct discussions with an applicant. An extension of the comment period will only be for a brief period and normally will not be appropriate if it will extend the application-processing period beyond the time limits established in the relevant statute or Agency rules. A commenter that fails to submit comments on an application until after the close of the comment period (or any extension) may be precluded from participation.

Conclusion

The Agencies consider it important that financial institutions act effectively to meet the requirements of the CRA in a positive and ongoing manner. The Agencies believe that this can be done in a way that will not only benefit local communities, but also will be consistent with the safe and sound operation of financial institutions. Doing so, however, requires managerial effort, oversight and review. An institution's processes for meeting the credit needs of its community must reflect an understanding of those needs and take into account changes that may occur in the community's credit needs. By applying sound management techniques to the challenges presented by the CRA, financial institutions can be agents of positive change for the cities, towns and rural areas of this country—thereby benefiting themselves as well as the communities that they serve.



APPENDIX *D*

WHERE TO GO FOR MORE INFORMATION

All questions concerning clarification of the Community Reinvestment Act, its regulations or procedures should be directed to the regional office of the regulatory agency(ies) that regulate your bank.

For information on community credit needs and community-based organizations, the following non-profit organizations may be helpful.

ACORN

522 8th St., S.E.
Washington, DC 20003
202-547-9292
Brian Maney
Jane Uebelhoer

National advocacy organization with local neighborhood affiliates in many cities.

Center for Community Change

1000 Wisconsin Ave., N.W.
Washington, DC 20007
202-342-0567
Allen Fishbein
Debbie Goldberg

Provides technical assistance on CRA to community-based organizations and works with Congress on reinvestment public policy.

Community Information Exchange

1029 Vermont Ave, N.W. Suite 710
Washington, D.C. 20005
202-628-2981
Alice Shabecoff

Information on 1029 innovative reinvestment programs including an electronic news service.

Development Training Institute

4806 Seton Drive
Baltimore MD 21215
301-764-0780
Joseph McNeely
Carol Gallant

Provides CRA training for banks and bank regulators.

National Training and Information Center

810 N. Milwaukee
Chicago, IL 60607
312-243-3035
Gale Cincotta

Provides technical assistance on CRA to community-based organizations.

Shorebank Advisory Services

1950 E. 71st St.
Chicago, IL 60649
312-280-4740
Charles Rial

Provides CRA training for banks and economic development program design.

Woodstock Institute

53 W. Jackson, Suite 304
Chicago, IL 60604
312-427-8070
Jean Pogge
Maria Choca

Designs reinvestment programs with banks and community organizations. Has computerized HMDA information for the entire country.